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BUILDING A BETTER AMERICA

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A SUPPLEMENT TO HIS MESSAGE DELIVERED TO THE JOINT SESSION OF CONGRESS, FEBRUARY 9, 1989

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To the Congress of the United States:

I hereby transmit a supplement to the Message I am delivering to the Joint Session of the Congress tonight. It is titled "Building a Better America," and it contains further description of the plans and proposals mentioned in the Message. I urge the Congress to give favorable consideration to these proposals and renew my invitation to the congressional leadership to work together to assure that America is united, strong, at peace, and fiscally sound.

GEORGE BUSH.

THE WHITE HOUSE, *February 9, 1989.*

BUILDING A BETTER AMERICA

February 9, 1989

NOTICE

There Should Be No Release of This Document Until 9:00 P.M. (E.S.T.) Thursday, February 9, 1989

BUILDING A BETTER AMERICA

"I seek the Presidency for a single purpose . . . to build a better America."

George Bush
August 18, 1988

"We live in a peaceful, prosperous time, but we can make it better."

George Bush
January 20, 1989

TABLE OF CONTENTS

Page

I. RENEWING AMERICA'S VALUES

A. A NEW BREEZE IS BLOWING: THE PRESIDENT'S INAUGURAL ADDRESS 3

B. AMERICA: A NATION OF VALUES 9

II. INVESTING IN AMERICA'S FUTURE

A. RESTORING FISCAL BALANCE 17

1. REFORMING THE BUDGET PROCESS 19

2. ORDERING BUDGET PRIORITIES: ALLOCATING THE BENEFITS OF GROWTH 23

B. ADVANCING PRIORITIES FOR GROWTH AND COMPETITIVENESS 29

1. INVESTING IN R&D AND LONGER-TERM PRODUCTIVE CAPACITY 31

a. Encouraging Long-Term Investment 31

b. Strengthening Federal Science and Technology Policy 33

c. Maintaining America's Leadership in Space 34

d. Increasing Investment in Basic Research 36

e. Making Permanent the R&E Tax Credit 38

f. Improving the R&E Expense Allocation Rules 39

g. Enhancing Energy Security 40

h. Pushing Out the Research Frontier: The Superconducting Super Collider 42

i. Expanding Biomedical Research: The Promise of a Healthier Future 43

j. Expanding Our Knowledge Base: Improved Statistics 45

k. Promoting International Competitiveness 46

l. Improving Opportunities for Disabled Americans 47

2. INVESTING IN PEOPLE: EDUCATION 49

a. Rewarding Successful Schools 50

b. Recognizing Superior Teachers 52

c. Establishing a National Science Scholars Program 54

d. Fostering Magnet Schools of Excellence 55

e. Developing Alternative Certification Systems for Teachers and Principals 57
f. Expanding Experiments for Educational Achievement 58
g. Endowing Historically Black Colleges and Universities 60
h. Improving Accountability in Education 61
3. EXPANDING ECONOMIC OPPORTUNITIES: ENTERPRISE ZONES 63
C. ENDING THE SCOURGE OF DRUGS 65
1. EDUCATING THE YOUNG: DRUG PREVENTION 69
2. RECLAIMING LIVES: DRUG TREATMENT 71
3. GOING TO THE SOURCE: DRUG LAW ENFORCEMENT 73
4. STRENGTHENING OUR LAWS: DRUG PENALTIES 75
5. INTENSIFYING THE ATTACK ON CRIME 77
D. MEETING SPECIAL OBLIGATIONS: A KINDER, GENTLER AMERICA 81
1. PROTECTING THE ENVIRONMENT 83
a. Strengthening Our Commitment to Cleaner Air 83
b. Preserving and Expanding Recreation Lands 85
c. Developing Offshore Oil and Gas While Protecting the Environment 86
d. Speeding Hazardous Waste Cleanup 88
e. Fighting Ocean Pollution 89
f. Preserving Our Wetlands 90
g. Enhancing Water Quality 92
h. Reducing the Growing Volume of Waste 93
i. Fostering International Cooperation on Global Environmental Issues 94
2. COMBATING HOMELESSNESS 97
3. ENHANCING PARENTAL CHOICE IN CHILD CARE 101
a. Expanding Child Care Assistance for Low-Income Families Through Tax Code Changes 102
b. Expanding Head Start 103
c. Examining Barriers to Liability Insurance 105
4. INCREASING ADOPTION 107
5. ENGAGING YOUTH IN SERVICE—YES 111
6. RESPONDING TO HIV/AIDS 113
7. IMPROVING MEDICAID FOR PREGNANT WOMEN, INFANTS, AND CHILDREN 115
8. PROTECTING SOCIAL INSURANCE AND PROVIDING FOR THOSE IN NEED 117

E. BALANCING COMPETING CLAIMS 119
1. RESTRAINING THE GROWTH IN MANDATORY PROGRAMS 121
2. APPLYING THE FREEZE 127

III. MANAGING AMERICA'S GOVERNMENT BETTER

A. PROVIDING FOR NATIONAL SECURITY AND INCREASING DEFENSE EFFICIENCY 135
B. ATTENDING TO PROBLEMS FROM THE PAST 141
1. REFORMING THE S&L SECTOR 143
2. PROTECTING SAFETY AND THE ENVIRONMENT AT NUCLEAR WEAPONS PLANTS 147
3. ENSURING EXCELLENCE AND SAFETY IN AVIATION 149
C. TRANSFERRING ASSETS TO THE PRIVATE SECTOR 151

IV. SECURING A MORE PEACEFUL WORLD 157

V. APPENDICES

A. NOTE ON ECONOMIC AND TECHNICAL ASSUMPTIONS 165
B. REAGAN REVENUE MEASURES 171
C. BUSH RECEIPT PROPOSALS 175
D. SUMMARY OF BUSH BUDGET INITIATIVES 179
E. OUTLAYS BY BUDGET FUNCTION 183
F. MANDATORY PROGRAMS THAT NATURALLY DECLINE UNDER CURRENT LAW 187
G. SUMMARY PROJECTIONS OF RECEIPTS, OUTLAYS, AND THE DEFICIT 191

1. All years referred to are fiscal years, unless otherwise noted.
2. Detail in the tables and text of this volume may not add to the totals because of rounding.

I. RENEWING AMERICA'S VALUES

A. A NEW BREEZE IS BLOWING: THE PRESIDENT'S INAUGURAL ADDRESS

THE PRESIDENT'S INAUGURAL ADDRESS

Mr. Chief Justice, Mr. President, Vice President Quayle, Senator Mitchell, Speaker Wright, Senator Dole, Congressman Michel, and fellow citizens, neighbors and friends:

There is a man here who has earned a lasting place in our hearts, and in our history. President Reagan, on behalf of our nation I thank you for the wonderful things that you have done for America.

I've just repeated word-for-word the oath taken by George Washington 200 years ago; and the Bible on which I placed my hand is the Bible on which he placed his.

It is right that the memory of Washington be with us today, not only because this is our Bicentennial Inauguration, but because Washington remains the father of our country. And he would, I think, be gladdened by this day. For today is the concrete expression of a stunning fact: Our continuity these 200 years since our government began.

We meet on democracy's front porch. A good place to talk as neighbors, and as friends. For this is a day when our nation is made whole, when our differences, for a moment, are suspended.

And my first act as President is a prayer. I ask you to bow your heads.

"Heavenly Father, we bow our heads and thank you for your love. Accept our thanks for the peace that yields this day and the shared faith that makes its continuance likely. Make us strong to do your work, willing to heed and hear your will, and write on our hearts these words: 'Use power to help people.' For we are given power not to advance our own purposes, nor to make a great show in the world, nor a name. There is but one just use of power, and it is to serve people. Help us remember, Lord. Amen."

I come before you and assume the presidency at a moment rich with promise. We live in a peaceful, prosperous time, but we can make it better.

For a new breeze is blowing, and a world refreshed by freedom seems reborn; for in man's heart, if not in fact, the day of the dictator is over. The totalitarian era is passing, its old ideas blown away like leaves from an ancient lifeless tree.

A new breeze is blowing, and a nation refreshed by freedom stands ready to push on. There is new ground to be broken, and new action to be taken.

There are times when the future seems thick as a fog; you sit and wait, hoping the mists will lift and reveal the right path.

But this is a time when the future seems a door you can walk right through—into a room called Tomorrow.

Great nations of the world are moving toward democracy—through the door to freedom.

Men and women of the world move toward free markets—through the door to prosperity.

The people of the world agitate for free expression and free thought—through the door to the moral and intellectual satisfactions that only liberty allows.

We know what works: Freedom works. We know what's right: Freedom is right. We know how to secure a more just and prosperous life for man on Earth: through free markets, free speech, free elections, and the exercise of free will unhampered by the state.

For the first time in this century—for the first time in perhaps all history—man does not have to invent a system by which to live. We don't have to talk late into the night about which

form of government is better. We don't have to wrest justice from the kings. We only have to summon it from within ourselves.

We must act on what we know. I take as my guide the hope of a saint: In crucial things, unity—in important things, diversity—in all things, generosity.

America today is a proud, free nation, decent and civil—a place we cannot help but love. We know in our hearts, not loudly and proudly, but as a simple fact, that this country has meaning beyond what we see, and that our strength is a force for good.

But have we changed as a nation even in our time? Are we enthralled with material things, less appreciative of the nobility of work and sacrifice?

My friends, we are not the sum of our possessions. They are not the measure of our lives. In our hearts we know what matters. We cannot hope only to leave our children a bigger car, a bigger bank account. We must hope to give them a sense of what it means to be a loyal friend, a loving parent, a citizen who leaves his home, his neighborhood and town better than he found it.

And what do we want the men and women who work with us to say when we are no longer there? That we were more driven to succeed than anyone around us? Or that we stopped to ask if a sick child had gotten better, and stayed a moment there to trade a word of friendship?

No president, no government, can teach us to remember what is best in what we are. But if the man you have chosen to lead this government can help make a difference; if he can celebrate the quieter, deeper successes that are made not of gold and silk, but of better hearts and finer souls; if he can do these things, then he must.

America is never wholly herself unless she is engaged in high moral principle. We as a people have such a purpose today. It is to make kinder the face of the nation and gentler the face of the world.

My friends, we have work to do. There are the homeless, lost and roaming, there are the children who have nothing—no love and no normalcy—there are those who cannot free themselves of enslavement to whatever addiction—drugs, welfare, the demoralization that rules the slums. There is crime to be conquered, the rough crime of the streets. There are young women to be helped who are about to become mothers of children they can't care for and might not love. They need our care, our guidance, and our education, though we bless them for choosing life.

The old solution, the old way, was to think that public money alone could end these problems. But we have learned that that is not so. And in any case, our funds are low. We have a deficit to bring down. We have more will than wallet, but will is what we need.

We will make the hard choices, looking at what we have and perhaps allocating it differently, making our decisions based on honest need and prudent safety.

And then we will do the wisest thing of all—we will turn to the only resource we have that in times of need always grows: the goodness and the courage of the American people.

And I am speaking of a new engagement in the lives of others—a new activism, hands-on and involved, that gets the job done. We must bring in the generations, harnessing the unused talent of the elderly and the unfocused energy of the young. For not only leadership is passed from generation to generation, but so is stewardship. And the generation born after the Second World War has come of age.

I have spoken of a thousand points of light—of all the community organizations that are spread like stars throughout the nation, doing good.

We will work hand in hand, encouraging, sometimes leading, sometimes being led, rewarding. We will work on this in the White House, in the Cabinet agencies. I will go to the people and the programs that are the brighter points of light, and I'll ask every member of my government to become involved.

The old ideas are new again because they are not old, they are timeless: duty, sacrifice, commitment, and a patriotism that finds its expression in taking part and pitching in.

We need a new engagement, too, between the Executive and the Congress. The challenges before us will be thrashed out with the House and the Senate. And we must bring the federal budget into balance, and we must ensure that America stands before the world united—strong, at peace and fiscally sound. But of course things may be difficult.

We need compromise; we've had dissension. We need harmony; we've had a chorus of discordant voices.

For Congress, too, has changed in our time. There has grown a certain divisiveness. We have seen the hard looks and heard the statements in which not each other's ideas are challenged, but each other's motives. And our great parties have too often been far apart and untrusting of each other.

It's been this way since Vietnam. That war cleaves us still. But, friends, that war began in earnest a quarter of a century ago, and surely the statute of limitations has been reached. This is a fact: The final lesson of Vietnam is that no great nation can long afford to be sundered by a memory.

A new breeze is blowing—and the old bipartisanship must be made new again.

To my friends—and, yes, I do mean friends—in the loyal opposition—and, yes, I mean loyal, I put out my hand.

I am putting out my hand to you, Mr. Speaker.

I am putting out my hand to you, Mr. Majority Leader.

For this is the thing: This is the age of the offered hand.

And we can't turn back clocks and I don't want to. But when our fathers were young, Mr. Speaker, our differences ended at the water's edge. And we don't wish to turn back time, but when our mothers were young, Mr. Majority Leader, the Congress and the Executive were capable of working together to produce a budget on which this nation could live. Let us negotiate soon, and hard. But in the end, let us produce.

The American people await action. They didn't send us here to bicker. They ask us to rise above the merely partisan. "In crucial things, unity"—and this, my friends, is crucial.

To the world, too, we offer new engagement and a renewed vow; we will stay strong to protect the peace. The "offered hand" is a reluctant fist; once made, strong and can be used with great effect.

There are today Americans who are held against their will in foreign lands and Americans who are unaccounted for. Assistance can be shown here and will be long remembered. Goodwill begets goodwill. Good faith can be a spiral that endlessly moves on.

"Great nations like great men must keep their word." When America says something, America means it, whether a treaty, or an agreement, or a vow made on marble steps. We will always try to speak clearly, for candor is a compliment. But subtlety, too, is good and has its place.

While keeping our alliances and friendships around the world strong, ever strong, we will continue the new closeness with the Soviet Union, consistent both with our security and with progress. One might say that our new relationship in part reflects the triumph of hope and strength over experience. But hope is good. And so is strength. And vigilance.

Here today are tens of thousands of our citizens who feel the understandable satisfaction of those who have taken part in democracy and seen their hopes fulfilled.

But my thoughts have been turning the past few days to those who would be watching at home.

To an older fellow who will throw a salute by himself when the flag goes by, and the woman who will tell her sons the words of the battle hymns. I don't mean this to be sentimental. I mean that on days like this, we remember that we are all part of a continuum, inescapably connected by the ties that bind.

Our children are watching in schools throughout our great land. And to them I say, thank you for watching democracy's big day. For democracy belongs to us all, and freedom is like a beautiful kite that can go higher and higher with the breeze.

And to all I say, no matter what your circumstances or where you are, you are part of this day; you are part of the life of our great nation.

A president is neither prince nor pope, and I don't seek "a window on men's souls." In fact, I yearn for a greater tolerance, an easy-goingness about each other's attitudes and way of life.

There are few clear areas in which we as a society must rise up united and express our intolerance. The most obvious now is drugs. And when that first cocaine was smuggled in on a ship, it may as well have been a deadly bacteria, so much has it hurt the body, the soul of our country. And there is much to be done and to be said, but take my word for it—this scourge will stop.

And so there is much to do; and tomorrow the work begins.

And I do not mistrust the future; I do not fear what is ahead. For our problems are large, but our heart is larger. Our challenges are great, but our will is greater. And if our flaws are endless, God's love is truly boundless.

Some see leadership as high drama and the sound of trumpets calling. And sometimes it is that. But I see history as a book with many pages—and each day we fill a page with acts of hopefulness and meaning.

The new breeze blows, a page turns, the story unfolds—and so today a chapter begins—a small and stately story of unity, diversity, and generosity—shared, and written, together.

Thank you. God bless you. And God bless the United States of America.

George Bush

WASHINGTON, D.C.
JANUARY 20, 1989

B. AMERICA: A NATION OF VALUES

This document contains the President's recommendations for initiatives to be included in the budget for 1990. It represents the new Administration's statement of priorities—the outline of a blueprint for building a better America.

The pages that follow deal at some length with specific program initiatives and with the Administration's plan for reducing the Federal deficit to meet the Gramm-Rudman-Hollings targets without raising taxes, and with increasing investment in America. But the process of building a better America involves much more than adjusting program priorities in the budget.

The President believes that the process begins most importantly with holding fast to those American values which have made our nation, in Lincoln's words, "the last, best hope of earth."

For two hundred years, since the first Inauguration, America has been a nation of values—made great by the strength and generosity of its people, the wisdom that comes from tolerance of diversity, and the power of the idea upon which it was founded.

That idea has been the simple driving force behind America's continuous self-renewal. It can be simply stated: that Government exists only to serve the will of the people. Americans have repeatedly reminded their Government of this fact, and the result has been a stronger, more vibrant nation.

> *"There is but one just use of power, and it is to serve people."*
>
> George Bush

The true root of America's strength can be found in the basic beliefs that "we the people" share, the deep-seated values Americans honor, the principles Americans hold dear.

They have been passed from generation to generation; and America will remain great only if America remains good—if this generation of Americans remembers its philosophical roots and communicates them with conviction to the next generation.

That philosophy is a generous one—it values not private gain in and of itself but the more fulfilling family, community, and national life that the sum of individual gains makes possible.

It is a philosophy built around freedom—not because freedom allows individuals to escape from responsibility, but rather because freedom makes possible opportunity for all.

It is a philosophy that embraces the explicit recognition in the Declaration of Independence that "all men are created equal"—not as an inconvenient matter of law but as a cherished ideal around which to build a nation.

And it is a philosophy that understands the inner strength that springs from family and the clear direction that springs from faith—and recognizes that family and faith represent the moral compass of the Nation.

This Administration is dedicated to strengthening the values that bring that philosophy to life. The effort will begin with the President, not merely because his involvement is essential to ensuring that laws and regulations reflect these American values, but because the President helps set the moral tone for the Nation.

The Administration is pledged not only to hold public servants to an exacting standard of conduct, but to communicate the importance of their work so as to encourage others to serve

their country; not only to enforce statutes against those whose greed leads them to violate laws against corruption, but to call all Americans to a higher purpose that values public good along with private gain; not only to take the steps necessary to defend our security at home, but to be a strong and reliable voice for freedom in a changing world.

This Administration is pledged to keep working toward a society unmarked by discrimination on the basis of age, race, sex, color, creed or disability.

The President has issued a call to "leave the tired old baggage of bigotry behind", as he works with Americans at large to knock down the barriers left by past discrimination and to build a more tolerant society that precludes the erection of barriers to hope and opportunity in the future.

This Administration is committed to building its programs on the foundation of enduring American values that honor freedom and give individual Americans the power to make their own lives better.

The President believes in policies that give American families greater choice—whether in the housing in which they live, the schools to which they send their children, or the child care they select for the young. The President believes in policies that give people greater power to make those choices, whether by expanding the resources available to those most in need, or by nurturing a strong economy that provides employment for those who want jobs.

The President believes that public service is a high calling—and that a government that would truly serve the people must be an honest one. So while this Administration is committed to recruiting men and women of unquestioned integrity to government, it intends to put forward a comprehensive and unambiguous code of conduct to avoid even the appearance of conflict between the public and private interests of those who work in government.

As one of his first acts in office, the President appointed a Commission on Federal Ethics Law Reform to help develop such a code. The Commission has been asked to report to the President on March 9th, and the President will then forward its recommendations to the Congress and seek early enactment of ethics reform.

But the values that have given America its strength go far beyond those codified in our laws. They extend to our basic character as a people.

And the President believes, perhaps most importantly, in policies that create economic opportunity for all Americans. This Administration's policies are designed above all to extend the record of economic growth begun by the low-tax policies of the past eight years.

That record of growth has provided America with the opportunity to invest in a brighter future. The President's program, presented here, is intended to invest wisely, for America's available resources are limited, and is designed to focus our investments on those activities most likely to create growth in the years ahead.

The President believes that every member of this generation has an affirmative responsibility, both to serve the Nation and each other, and to reduce the burden placed on the backs of future generations. Therefore, a key part of the Administration's program is a commitment to reduce the burden of debt passed on without their approval to those who are not here to represent themselves. That is the moral dimension of the deficit problem.

The economic opportunity alive in America today will last if we tend to those priorities that will keep it alive; if we resist the temptation to smother growth in a reckless return to new spending; and if we remember the source of America's historic and unparalleled strength—the values and the vision of its tireless and optimistic people.

The program that follows is designed to reflect those values in the actions of Government. It has been organized into sections that highlight program initiatives as the embodiment of more deeply held beliefs about the direction America should take. It contains a five-part program for investing in America's future: restoring fiscal balance; advancing priorities for growth and competitiveness; ending the scourge of drugs; building a kinder, gentler nation; and balancing competing claims. That is followed by a discussion of ideas for managing America's government better and securing a more peaceful world.

In sum, the following pages represent a programmatic embodiment of American values—oriented toward building a better America.

II. INVESTING IN AMERICA'S FUTURE

A. RESTORING FISCAL BALANCE

This Administration has one overarching economic policy goal: to encourage further economic growth and extend the record-breaking economic expansion that we have enjoyed for the past six years. That will require both holding the line on taxes and reducing the Federal budget deficit.

The Federal deficit absorbs too much of America's savings. Partly as a result of the deficit, the national saving rate has been undesirably low. Americans are now saving, net, only about 2-1/2 percent of their collective income. Greater savings are a key to higher productivity in the American economy. A higher national saving rate does not by itself guarantee faster productivity growth, but without more saving, substantially faster productivity growth is unlikely. Higher productivity is essential if America's standard of living is to increase in the future as rapidly as in the past.

No other single measure open to the Federal Government is more likely to raise the national saving rate, and promote productivity growth, than a substantial reduction in the budget deficit.

> *"Our job won't be complete until we get Federal spending under control."*
>
> George Bush

Net investment in America has been partially cushioned from the effects of Federal borrowing by a large inflow of foreign investment funds, as overseas investors have wanted to share in our economic growth and prosperity. But even with the foreign funds, investment in the United States remains lower as a share of GNP than in most of our major industrial competitors.

Another burden from the budget deficit is high and mounting interest costs. Interest payments amount to 3 percent of our gross national product, or 14 percent of Federal Government spending. While these costs have stabilized during the economic expansion, they are still unacceptably high.

Ultimately, Federal deficits have moral as well as economic consequences. To the extent that an increase in Federal debt is not used to finance productive investment that will benefit America in the future, then we are taking resources from our children to pay for our current consumption. That is not just economically unsound, it is morally wrong.

Progress in controlling the deficit requires both procedural reforms and policy changes. The President believes that changes in the budget process will help make it possible to curb unnecessary spending. In addition, it will be necessary to make difficult choices among Federal priorities. But higher taxes, as the President has said repeatedly, are not the solution to the deficit problem.

The President's budget plan meets the Nation's most important defense and domestic priorities; it proposes to increase expenditures which help to enhance the productivity of the American economy, while at the same time meeting our obligations to the less fortunate, the sick, and the elderly. This can be done within the Gramm-Rudman-Hollings deficit limits by freezing other Government programs that serve less urgent national needs.

1. REFORMING THE BUDGET PROCESS

There is virtually unanimous agreement that the current Congressional budget process needs reforming. It is also widely understood and acknowledged that process reform is not a substitute for the discipline and political courage needed to solve the problem of budget deficits. Nonetheless, changes are clearly needed—and not only in Congressional procedures.

- *Balanced Budget Constitutional Amendment.* The most fundamental change needed is a constitutional amendment to require a balanced budget, including safeguards against a resort to higher taxes as the means of complying with the constitutional mandate. For most of our history until very recent decades there was an unwritten, but effective, rule against deficit financing, except in time of war. That rule, unfortunately, appears to have been abandoned in practice, if not in oratory. The problem of excessive spending—and spending that exceeds revenue—is a well-known and chronic affliction of democracies. The remedy in the case of the United States is clear: a change in the constitution. A balanced budget amendment is both necessary and appropriate to protect the interests of a group of citizens not now able to represent themselves: the citizens of future generations. Such an amendment has already passed the Senate on one occasion, and public support for it is shown in a variety of ways, ranging from opinion polls to enactment by more than 30 state legislatures of calls for a constitutional convention for this purpose. The time has come to move a balanced budget constitutional amendment forward.

> *"The President needs the power to make the tough calls on spending and to take the heat. That's what a President is there for—to lead. And that's why I want the same tool that 43 governors have—the line item veto. With that power, we can put the public interest above the special interest."*
>
> George Bush

- *Line-Item Veto.* The President is repeating the call of virtually all of his predecessors for the line-item veto. It is already possessed, in varying forms, by more than 40 state governors, and it has not resulted in an unhealthy augmentation of executive power vis-a-vis the legislature. Given the manner in which Congress legislates, the authority should cover not only appropriations bills but also authorizing bills that create spending authority (including mandatory or entitlement spending), and also revenue bills. While a constitutional amendment is the best way to grant the line-item veto authority, it could also be provided to the President by statute.

- *Enhanced Rescission Authority.* Present law allows for the cancellation of an appropriation, or portion of an appropriation, only through the process known as rescission, in which Congress can reject a Presidential proposal for rescission simply by inaction. That is precisely what has happened to the vast majority of rescission proposals submitted by three Presidents since the present law was enacted in 1974. The change the President is proposing would require an up-or-down vote by Congress on Presidential rescission proposals.

- *Biennial Budgeting.* The budget process would be easier and less time-consuming for all concerned to the extent that budgets can be made to cover two years instead of one. Moreover, program management becomes more efficient when the amount of funding for a reasonable period in the future is assured. There are various versions of biennial

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budgeting, ranging from two-year budget resolutions with annual enactment of appropriations bills to a two-year process for all aspects of budgetary legislation. The President is prepared to work with Congress to achieve a reform that will not only save time but also make management efficiencies possible.

- *Enactment of Individual Appropriations Bills.* Last year Congress enacted all 13 appropriations bills separately for the first time since 1976. In the intervening years there had been increasing use of omnibus appropriations bills enacted under the misleading name of "continuing resolutions." While continuing resolutions may be necessary to cover short periods of time at the beginning of a fiscal year, full-year omnibus continuing resolutions—typically created in crisis—are rarely a sensible way to govern. It is imperative that Congress continue the practice of last year and enact individual appropriations bills in a timely and orderly manner. This is one important safeguard against wasteful special interest add-ons that can be slipped into last-minute, thousand-page bills without proper scrutiny.

- *Joint Budget Resolution.* At present the annual budget resolution does not require the approval of the President. While this may sometimes make passage of the resolution easier, it often assures conflict at the time of enactment of actual spending and revenue bills. Converting it to a joint resolution, requiring Presidential signature, would guarantee negotiations early in the process, and would increase the likelihood that the intentions of the budget resolution would ultimately be reflected in law. The joint resolution should cover two years.

- *Enforcement of the Budget Resolution.* At present enforcement of guidelines in the budget resolution is weakened by such factors as different interpretations by the House and Senate on the priorities implicit in the resolution and lack of rules regarding shifts between defense and domestic categories. If the budget resolution is to be a true guideline for future legislative action, and signed by the President, it should contain a reasonable degree of precision and enforceability. Possible reforms include showing revenue proposals individually, and more precise allocation of spending to authorizing committees for mandatory programs and appropriations subcommittees for discretionary programs.

- *Credit Reform.* The President supports legislation to reform the budgetary treatment of credit programs to show the true subsidy cost of both direct loans and loan guarantees, and to require appropriations for these subsidy costs.

- *Budget Measurement.* Achieving budget agreements between the Executive and Legislative branches is made difficult because there is no agreed set of principles for scoring the budgetary impact of various actions or proposals. The Congressional Budget Office and the Office of Management and Budget (OMB) should be mandated to agree upon and adopt such principles, after consultation with the relevant committees of Congress.

- *Capital Expenditures.* The President is instructing the Director of OMB to develop ways of highlighting those elements of annual Federal expenditure that are in the nature of capital outlays. The intent is not to change the present measurement of the budget surplus or deficit but to permit better analysis of the breakdown of outlays between current consumption and those that add to the Nation's future standard of living.

- *Longer Horizons.* The President has also instructed that OMB devote more effort to anticipating long-term problems and opportunities. The Government should not have to face, as it has, sudden large budgetary claims in such areas as the Federal Savings and Loan Insurance Corporation problem and the cleanup and modernization of the Nation's nuclear weapons facilities. By the same token, not all functions of government will require expanding outlays with the passage of time. While there are limits to what can be planned in advance, a time horizon that is too short, dominated by this year's crises, can become a serious drawback to sensible government performance.

- *Management by Objectives.* The Federal Government needs a better system for tracking policy initiatives and priorities from the time of their formulation and announcement by the President to their ultimate outcomes. The President is directing that each major department and agency identify three major policy priorities. Developments in each of these areas will be tracked not only by the agency but also by the Office of Management and Budget in coordination with the Office of Policy Development in the White House. Regular reports will be made to the President to keep him abreast of progress in the major areas of policy and management he wishes to assure are satisfactorily monitored.

2. ORDERING BUDGET PRIORITIES: ALLOCATING THE BENEFITS OF GROWTH

INTRODUCTION: PUTTING AN END TO WONDERLAND BUDGETING

A curious Wonderland quality has taken over the habit of mind that governs Federal budgeting. This habit is described by a phrase that is common among Washington budgeteers: *"current services baseline" budgeting.*

To the extent that it is comprehensible, the phrase sounds reasonable enough. And for some analytical purposes, it *is* reasonable. But as a habit of mind, budgeting from a "current services baseline" has unfortunate and misleading effects.

The "current services" approach suggests that programs funded in the past must be funded at at least equivalent service levels in the future—with a built-in upward adjustment for inflation and other factors. In a sense, it treats spending programs as immortal. And it treats inflation as an acceptable given.

If a program is preserved and increased, but not quite as fast as inflation—if it grows, say, from $100 million to $103 million—then in the terminology of the current services Wonderland, it is said to be "cut." And political leaders in the Executive Branch and the Congress often take credit for "cutting" the deficit as they thus increase spending. What they cut is the "current services" deficit, while the actual deficit continues to rise.

In ordinary life, 103 is not a "cut" relative to 100. But in the world of "current services," things are different. It is a Wonderland phenomenon: a "cut" is really an increase; a deficit said to be going "down" is really going up.

If the real world deficit is to be reduced, programs must not be assumed to be immortal. Inflation must not be built in as given. And last year's level of service in every program must not be treated as the presumed minimum acceptable level for next year.

One might think of this in personal terms: If one buys a new car and a new dishwasher in 1989, one does not plan one's budget for 1990 by assuming first that one will need yet another new car and dishwasher in 1990—with pricetags adjusted up! But that's just the kind of thinking that the "current services" habit of mind tends to encourage.

If the deficit is to be reduced, the frame of reference must be made more common-sensical. Next year's budget must be framed in relation to last year's actual spending—and in relation to available resources and deficit targets—*not* in relation to some hypothetical, perpetually expanding "current services" baseline.

A COMMON SENSE APPROACH

How then to proceed? Common sense suggests a straightforward eight-step approach:

Step (1): Determine Available Revenues

One of the many benefits of sustained economic growth is that Federal revenues continue to rise with the growth in gross national product. Relative to 1989, the Administration projects 1990 receipts to rise by $81.5 billion.

Under current law, the Administration forecasts receipt increases for 1990, 1991, 1992, and 1993 that would total $774.6 billion, with the 1993 level of receipts reaching $1,279.9

STEP (1)

(In billions of dollars)

Revenues	Amount
1990 Receipts	1,060.1
1989 Receipts	978.6
Year-to-year increase	+81.5
Plus Reagan 1990 revenue measures (Appendix B)	+6.4
Total revenue increase	+87.9

billion—$301.3 billion higher than 1989. (See Appendix A for a further note on the Administration's economic assumptions.) The Congressional Budget Office forecasts even higher revenue levels. If revenues grow as the Administration assumes, and if overall spending growth were held to the inflation rate—with necessary program increases beyond inflation offset by others below inflation—then the budget would come into balance in 1993. At an abstract level, this is the essence of the "flexible freeze."

Step (2): Determine the Amount Necessary to Reach the Deficit Target—And, as First Priority, Allocate a Portion of the Increasing Revenues to Necessary Deficit Reduction

The February estimate of the 1989 deficit is $164.0 billion excluding the impact of the capital gains tax proposal. This revision of the early-January estimate is due principally to an interest rate correction and an adjustment for certain December Federal Savings and Loan Insurance Corporation outlays not fully assumed in the Reagan Administration's budget. (See Appendix A.)

The Gramm-Rudman-Hollings deficit target for 1990 is $100 billion.

The difference between the 1989 estimated deficit and the 1990 deficit target is $64.0 billion. Exactly this amount—i.e., the amount necessary to assure the required deficit reduction—must be viewed as a first claim against increasing revenue.

STEP (2)

(In billions of dollars)

	Amount
1989 Deficit estimate	164.0
Less: 1990 deficit target	100.0
Equals: Set-aside for deficit reduction	64.0

Step (3): Calculate the Amount of Natural Outlay Decreases in Mandatory Programs

Some programs do not necessarily increase. Indeed, under existing law, a host of mandatory programs are expected to *de*crease. This happens, for example, when the farm sector starts to rebound, earned farm income increases, and certain farm-related income support programs naturally decrease. (For a complete list of such naturally decreasing programs, see Appendix F.) The total amount by which outlays for all such mandatory programs naturally decreases in 1990 is $10.0 billion.

Step (4): Determine "Funds Available" for Allocation to Selected Outlay Increases

Revenues are determined to increase by $87.9 billion (Step 1). This must be offset in one direction by the required deficit reduction (Step 2)—reducing the "Funds Available" by $64.0 billion. It can be partly offset in the other direction, however, by adding back funds that are freed up by the natural decline in certain mandatory programs (Step 3). The net amount is the amount that is available to *increase* outlays (relative to 1989)—and still meet the Gramm-Rudman-Hollings deficit target of $100 billion.

STEP (4)

(In billions of dollars)

	Amount
Step (1): Revenue increase	+87.9
Less Step (2): Necessary deficit reduction	-64.0
Plus Step (3): Funds freed up by natural decline in certain mandatory programs	+10.0
Equals: Step (4): "Funds Available" for allocation to selected outlay increases and initiatives	33.9

This amount—"Funds Available" for increases—is approximately 3 percent of 1989 outlays. That is, overall 1990 outlays can increase by an amount close to the projected inflation rate. But that is an overall—not a uniform—rate of increase. The way in which this increase is to be distributed is determined through Steps (5)–(8).

Step (5): Allocate Funds for Increased Interest Expense

Payments for interest on publicly held Federal debt are treated as an inescapable obligation—and must have first claim against "Funds Available" for outlay increases.

Net interest payments for 1989 are estimated at $168.8 billion. They are estimated at $173.3 billion for 1990—an increase of $4.5 billion.

STEP (5)

NET INTEREST OUTLAYS

(In billions of dollars)

	Amount
1989	168.8
1990	173.3
Increase	+4.5

Step (6): Determine Outlay Savings to be Achieved by Sensible Program Reform and Restructuring

The margin for priority program increases is affected not only by revenue increases and the natural decreases of certain mandatory programs. It is also affected by claims made by programs whose growth could be slowed through sensible reforms, or whose size could be reduced by restructuring. The margin for priority increases can be augmented through sensible reforms and restructurings. Opportunities for such reform and restructuring can be identified with conventional techniques of policy analysis and program evaluation.

A set of sensible reforms and restructurings is discussed in Section II.E.1 below. If they were adopted, total outlays for the mandatory programs subject to reform would still increase by $2.4 billion between 1989 and 1990. This is $11.8 billion less than they would increase without reforms; or, conversely, if these reforms are not achieved, "Funds Available" for priority increases would be $11.8 billion less. In addition, a shift from direct to guaranteed loans for four Agriculture Department programs would reduce outlays by $3.6 billion between 1989 and 1990.

Step (7): Determine Clear Priorities for Program Increases and Initiatives

After adjusting for interest and programs being reformed, there are five broad categories to which "Funds Available" for increases might be applied:

- advancing initiatives for continued *economic growth* and American competitiveness (discussed in Section II.B below);
- reducing fundamental threats to domestic health and security—such as the *scourge of drugs* (discussed in Section II.C below);
- attending to special obligations for a *"kinder, gentler"* America, while protecting social security and providing for those in need (discussed in Section II.D below);
- addressing remedial demands for *problems from the past*—such as those afflicting the savings and loan sector and those affecting atomic weapons production and clean-up (discussed in Section III.B below); and
- protecting national security and securing a *more peaceful world* (discussed in Section IV below).

All of these categories have important and legitimate claim to the allocation of scarce resources—as do many of the competing ideas for program increases within each category. A summary of the distribution of increases among these five categories follows.

STEP (7)

DISTRIBUTION OF PRIORITY INCREASES

(In billions of dollars)

	1989	1990	Increase
Advancing Priorities for Growth and Competitiveness	20.2	24.4	+4.2
Ending the Scourge of Drugs	8.5	9.8	+1.3
Meeting Special Obligations	328.4	349.9	+21.5
Attending to Problems from the Past	8.3	9.9	+1.6
Advancing Peace, Security, and Freedom in the World	16.5	17.5	+1.0

Step (8): Apply a "Freeze" to All Remaining Programs

The increased outlays allocated to interest (Step 5), restructured programs (Step 6), and to selected initiatives in the five areas meriting program increases (Step 7) must total less than the "Funds Available" (Step 4). (If the total were to exceed "Funds Available," the deficit target would not be met or the remainder of the budget would have to be reduced, in the aggregate, below the level of outlays in 1989—that is, below the level of a freeze.)

Assuming that Steps 5, 6, and 7 consume close to all the "Funds Available" (as they do), then all remaining programs must be subject to an approximate freeze in order to meet the deficit target. For the 1990 budget, this is achieved by these freezes:

- a freeze on the real growth of *Department of Defense* programs in 1990 (discussed in Section III.A below);
- a freeze on *cost-of-living adjustments* for Federal civilian and military retirement programs (discussed in Section II.E.2 below); and
- a flexible freeze on all other programs—so that 1990 outlays for such programs, in aggregate, are the same as total outlays for such programs in 1989 (discussed in Section II.E.2 below).

B. ADVANCING PRIORITIES FOR GROWTH AND COMPETITIVENESS

1. INVESTING IN R&D AND LONGER-TERM PRODUCTIVE CAPACITY

America has always been a forward-looking nation—and today it is no different.

This Administration is committed to making investments now, consistent with the mandate to reduce the deficit, which will lay the groundwork for continued American leadership in the 21st century.

> *"America is not a nation in decline. America is a rising nation."*
>
> George Bush

Enhanced productivity is the key to long-term competitiveness and economic growth, and, accordingly, the best investments that can be made today are those that will contribute to productivity growth.

The President's proposed budget includes several initiatives that are targeted at factors that contribute to improved productivity. In addition, the President has proposed several initiatives that will strengthen our basic research base, allowing the private sector to capitalize on this knowledge in developing productivity-enhancing innovations.

Some proposals are designed to increase investment over the longer term, such as a reduction in the rate at which capital gains are taxed, or encouraging investment in depressed areas by establishing enterprise zones.

Others are designed to extend American leadership in space, in basic research, in science and technology, and in biomedical research.

Not all of these investments carry with them an immediate payoff. In many cases, the benefits will not be fully realized until well into the next century. But to fail to make these critical investments today would be to cede American leadership tomorrow.

a. Encouraging Long-Term Investment

OVERVIEW

The Administration is committed to maintaining and enhancing American leadership in employment growth and entrepreneurial activity. The American record in job growth in the 1980's stands in stark contrast to the stagnant employment in most other advanced economies. Many of the new jobs are in small and medium-sized companies, in new as well as traditional industries, which grow more rapidly than larger mature firms. A great strength of the U.S. economy has been the rate of new business formation, product and process innovation, and leadership in new and emerging technologies. To help maintain this leadership position, the Administration proposes to restore a capital gains tax differential, which had existed in U.S. tax law prior to 1987. The Administration is committed to lower marginal tax rates that provide incentives to saving, investment, and work. The significant reductions in marginal tax rates during the past eight years contributed to the national economic growth. A major disappointment with the Tax Reform Act of 1986 was its increase in the capital gains tax rate. To help

stimulate greater saving, investment, and entrepreneurship, the Administration proposes a lower capital gains tax rate. For gains on qualified assets held long term, the maximum tax rate will be 15 percent for high income taxpayers. Low income taxpayers will be exempt from tax on such gains. Gains on short term holdings will not receive favorable tax treatment.

> *"I think we should cut the capital gains rate to reestablish that differential and create jobs."*
>
> George Bush

PRINCIPLES

- The President is committed to low marginal tax rates that stimulate work, saving, and investment.
- The President believes that lower capital gains rates will stimulate investment and economic growth and create additional jobs for Americans.
- The differentially lower rate for gains on long held assets will help focus investment decisions on long run competitiveness, and profitability.
- Taxpayers are responsive to lower tax rates and will significantly increase their capital gains realizations, particularly in the short-run. Revenues from increased economic growth can be expected in the long-run.
- Restoring the capital gains differential will increase entrepreneurial activity and employment, paving the way for discoveries of new products, processes, and whole new industries.
- Restoring the capital gains differential will roughly correct for the taxation of purely inflationary gains. Many taxpayers find that they pay capital gains taxes on increases in the value of assets which do not even keep pace with inflation.
- Restoring the capital gains differential will reduce the tax bias toward debt finance.
- Most of America's major trading partners tax long-term capital gains lightly, if at all. Reducing our capital gains rate will promote U.S. international competitiveness.
- The capitals gains proposal will gain revenue during the budget period as taxpayers (who otherwise would be locked in to holding their assets, paying no tax) realize capital gains sufficient to offset the lower tax rate. Historical experience indicates that when the capital gains rate has been cut, increased revenues are likely. The last time the capital gains differential was enhanced (the 1978 Steiger Amendment), capital gains revenue increased.

POLICIES

The President proposes restoring a capital gains tax differential on gains from qualified assets sold by individual taxpayers. A 45 percent exclusion will apply to gains on qualified assets; that is, 45 percent of the gain would be excluded from tax, meaning a lower effective capital gains tax rate. A 15 percent maximum tax rate will apply to all qualified gains to prevent high marginal tax rates from interactions with other tax rules. The exclusion and maximum tax rate will apply to both the regular and alternative minimum tax. A 100 percent exclusion will apply to gains on qualified assets of taxpayers who have adjusted gross income below $20,000 and who are not subject to the alternative minimum tax.

The current law definition of a capital asset will be retained. However, gain from the sale or exchange of depreciable property used in a trade or business and certain special types of property in section 1231 of the tax law will not be treated as capital gain eligible for the lower tax rate. "Collectibles" as defined by the eligibility rules for Individual Retirement Accounts will not be eligible for lower capital gains tax rates.

Qualified capital assets will be required to have been held more than 12 months to be eligible for the lower capital gains rate for assets sold in 1989 through 1992; 24 months for assets sold in 1993 and 1994; and 36 months for assets sold in 1995 or later.

The proposal to lower capital gains rates will be effective for qualified capital assets sold after June 30, 1989.

FUNDING SUMMARY

(Revenue change in billions of dollars)

	1989	1990	1991	1992	1993
Capital gains tax differential	+0.7	+4.8	+4.9	+3.5	+2.2

b. Strengthening Federal Science and Technology Policy

OVERVIEW

The President's Science Advisor, who is also the Director of the Office of Science and Technology Policy, is an important source of independent, technical counsel for the President, and plays a key role in the formulation of the national science and technology agenda.

The Administration believes that the private sector should also have an important role in providing science and technology advice. Science and technology form the foundation of economic power. It is the combination of dedicated, skilled people and technological advancement that can improve our standard of living and our competitive position in the global marketplace.

"I will upgrade the President's Science Advisor to Assistant to the President and make him an active member of the Economic Policy Council and our national security planning processes. And I will create a President's Council of Science and Technology Advisors, composed of leading scientists, engineers and distinguished executives from the private sector."

George Bush

PRINCIPLES

- Science and technology are increasingly critical to the Nation's national security and economic health.
- Many government policies and programs have an important scientific and technological component. Informed judgements on these issues are crucial to the President, and thus,

the science and technology advisor to the President warrants an elevated status in the White House.

- The President believes that the Federal science and technology process must be better coordinated with the private sector. Scientists, engineers, and executives from industry and academia should also be actively involved in the development of Federal science and technology policy.

POLICIES

The President proposes to designate the Director of the Office of Science and Technology Policy as Assistant to the President for Science and Technology. This would elevate the status of the Science Advisor to that of the National Security Advisor. The Assistant to the President for Science and Technology will report directly to the President and be an active member of high-level interagency policy groups, such as the Economic Policy Council, and will also be involved with national security planning processes.

In addition, the President proposes a 28 percent increase in the budget for the Office of Science and Technology Policy, reflecting the importance that the President attaches to the advice and counsel provided by OSTP on a wide variety of issues with scientific and technological aspects.

This budget will allow OSTP to play a central role in developing and coordinating Federal science and technology strategies, and in analyzing crosscutting issues in research and development. The Assistant to the President for Science and Technology would also assist the Office of Management and Budget in developing plans for multi-year authorizations and appropriations for research and development programs, building on efforts already underway for the National Aeronautics and Space Administration and the National Science Foundation.

As soon as feasible, the President will also establish a Council of Science and Technology Advisors, comprised of leading scientists, engineers and distinguished executives from the private sector.

c. Maintaining America's Leadership in Space

OVERVIEW

The Administration is committed to an aggressive program to maintain and press ahead with "the American edge"—U.S. leadership in key areas of space activity.

Our commitment to space is important to our national security, continued economic growth, and our quality of life here on Earth. Space is where important scientific and commercial breakthroughs of the future may be made, where medicines of the future may be manufactured, where some of our descendants may even make their living.

> *"In very basic ways, our exploration of space defines us as a people—our willingness to take great risks for great rewards, to challenge the unknown, to reach beyond ourselves, to strive for knowledge and innovation and growth. Our commitment to leadership in space is symbolic of the role we seek in the world.*
>
> George Bush

PRINCIPLES

- Space Station Freedom, planned for operation in the mid-1990's, is a keystone of the Nation's space policy.
- There must be a balanced and flexible space transportation system, including a safe and sustainable flight rate for the Space Shuttle and the purchase of commercially available launch services of expendable rockets.
- The President believes in a vigorous program of space science and applications and in the development of new technologies that will enable the future exploration and exploitation of space for the Nation's benefit.
- International cooperation in appropriate space activities is an important element of space policy.
- Private sector initiatives in space should be strongly encouraged, including creation of additional research and manufacturing opportunities.

POLICIES

The President proposes to increase funding for the National Aeronautics and Space Administration by $2.4 billion (BA) or 22 percent over 1989, to help ensure U.S. leadership in

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	10,898	13,274	+2,376	+22
Outlays	10,596	12,597	+2,001	+19

key areas of space activity.

This will allow NASA to continue on schedule the development of Space Station Freedom. The President proposes advance appropriations for 1991 and 1992 and a ceiling on total development costs for this program. The President also proposes to spend the remaining $515 million of 1989 Space Station funding, which, by law, cannot be used until May 15, 1989. This will maintain the momentum of the development phase of the Space Station.

In addition, the funding proposed for the Space Shuttle reflects the President's commitment to this program by enabling the buildup of the flight rate to 9 flights in 1990.

Also included in the President's budget is support for the new international Comet Rendezvous/Asteroid Flyby (CRAF) mission and the Cassini mission to Saturn, and continued strong support for aeronautics and space technology, including the National Aerospace Plane and the Pathfinder Project.

The budget recognizes the importance of private sector participation in the space program. The budget includes proposals for private sector investment in portions of space transportation and ground-support facilities for the Space Station.

The National Space Council has been established in the Executive Office of the President and will serve as the central focus for the coordination of a comprehensive national space policy.

The Vice President will chair the Council, which will be comprised of the heads of agencies including NASA, Defense, State, Commerce, Transportation, the Office of Management and Budget, and others.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	10,898	13,274	14,364	15,670	16,318
Outlays	10,596	12,597	14,021	15,088	15,858

d. Increasing Investment in Basic Research

OVERVIEW

America's greatest single strength and opportunity for the future is the ability to expand the limits of our knowledge. As the Nation moves into the 1990's and the 21st century, the Administration believes that America's economic success and national security depend to an ever greater extent on our scientific and technological progress. The Nation must be prepared to step up to the challenge.

The Federal investment in R&E should focus on basic research and allow the private sector—which is also a tremendous source of R&E spending—to decide which technologies will have the most potential in the marketplace. The economy must provide a climate which encourages businesses to take risks and invest in new, bold technologies.

"Scientific and technological advancement have always been at the very heart of our nation's pioneer spirit, pushing the boundaries of our knowledge, creating economic opportunity, and increasing our standard of living.

George Bush

PRINCIPLES

- Federal investments in research and development should be increased even beyond the current strong levels. Such investments should focus on basic research.
- Mathematics and science education should be improved so as to develop and nurture "human capital", the well-qualified scientists and engineers of the future, who will expand the frontiers of knowledge in the coming decades.
- Increased investment in research and development by industry and State and local governments should be encouraged.
- Research partnerships between government laboratories, the private sector, and universities should be encouraged and facilitated to take better advantage of fundamental scientific advances.

- International negotiations to ensure that American intellectual property rights are protected should be pursued.

POLICIES

The President proposes to provide an increase of $361 million, or 13 percent, over the 1989 enacted level for science and technology programs in 1990. These programs include the National Science Foundation and the general science programs of the Department of Energy (except for the Superconducting Super Collider).

PROPOSED CHANGE
(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	2,707	3,068	+361	+13
Outlays	2,613	2,905	+292	+11

This increase will continue the progress toward doubling NSF's budget by 1993, and will allow NSF to support the Engineering Research Centers, Advanced Scientific Computing Centers, and the 11 interdisciplinary Science and Technology Centers established in 1989. These centers provide important linkages between universities, industry and government labs to swiftly transfer the research from the lab to the marketplace.

The NSF budget for 1990 will also support thousands of individual researchers at universities and colleges, and the training of the scientists and engineers of the future at all levels of education, including improved math and science instruction in the public schools. NSF will continue to support and manage the U.S. Antarctic Program, which provides the U.S. with an active and influential presence in that important region.

The increase for the DOE general science programs will continue funding for existing nuclear and particle physics accelerators required to carry out research at the cutting edge of these fields. It will also provide for initiation of a major upgrade to the linear accelerator at Fermilab, currently the world's foremost experimental high-energy physics facility.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	2,707	3,068	3,394	3,712	4,102
Outlays	2,613	2,905	3,212	3,521	3,885

e. Making Permanent the R&E Tax Credit

OVERVIEW

Research spending is essential to fostering technological innovation, which is a major source of growth in productivity. The Administration is committed to encouraging continued growth of private, domestic research activities by establishing a permanent tax credit for research and experimentation (R&E).

> *"Here is my vision: America's low-tax, high opportunity policies [are] leading the world into a new era of economic growth. . . . I want a permanent extension of the R&D credit."*
>
> George Bush

PRINCIPLES

- A permanent R&E tax credit will help to keep America in the forefront of innovation.
- Stable tax laws that encourage research allow taxpayers to undertake research with greater assurance of tax consequences, permitting them to establish and expand research facilities without the fear that tax rules will suddenly change.
- Tax incentives are needed to encourage research activity, because the dissemination of technological knowledge makes it impossible for investors to capture the full return to their investment in research. In addition, the risk inherent in certain research activities may discourage firms from undertaking specific research projects. This is especially true of basic research, as opposed to product development. As a result, in the absence of Government support, investors will spend less for research than is desirable from society's point of view.

POLICIES

The President proposes a permanent R&E tax credit. The proposed credit would modify the structure of the current credit to increase its incentive effect and availability to firms that undertake research.

The current research and experimentation credit expires at the end of 1989. It is equal to 20 percent of the excess of current qualified R&E expenditures over the base amount. The base amount is equal to the average of the previous 3 years' R&E expenditures. The base is subject to the limitation that it never be less than 50 percent of current qualified expenditures. The credit is available only for research expenditures paid or incurred in carrying on the trade or business of the taxpayer. Deductions against taxable income for research expenditures must be reduced by 50 percent of the credit taken.

The President's proposal would retain the incremental feature of the present credit and its 20 percent rate, but would make the credit permanent and modify the calculation of the base amount. The new base would be a fixed historical base equal to the average of the firm's qualified R&E expenditures for the years 1983–1987, indexed to GNP growth. Firms would have the option of a separate credit equal to 7 percent of the excess over 75 percent of this new base. Deductions for R&E expenditures would be reduced by the full amount of the credit taken. The trade or business test also would be liberalized to allow new firms and firms entering new lines of business to claim the credit.

FUNDING SUMMARY

(Revenue change in millions of dollars)

	1989	1990	1991	1992	1993
Permanent R&E credit	n.a.	–387	–688	–963	–1,150

f. Improving the R&E Expense Allocation Rules

OVERVIEW

One of the President's priorities is the encouragement of domestic research and development. One obstacle to research conducted by American multinational corporations in recent years has involved taxation—specifically the allocation of the deduction for R&E expenses between domestic and foreign income. It is important to end the uncertainty and create a climate in which long-term research plans can be made with some assurance that the rules of the game will not change.

PRINCIPLES

- Technological innovation, particularly through U.S.-based research, is essential to maintain our competitive position in the world economy.
- The Administration strongly believes that permanent rules for allocating and apportioning deductions for R&E expense between foreign and domestic source income can properly serve to encourage private domestic R&E.
- The controversy concerning the allocation of R&E expense is now well into its second decade. The uncertainty generated by the continued expiration of temporary rules has made for an unstable tax environment for domestic research activity.

POLICIES

The President proposes the adoption of permanent research and experimentation expense allocation rules.

The most recent R&E allocation rules generally expired on May 1, 1988. Under those rules, domestic firms were allowed to allocate 64 percent of their expenses for research performed in the United States to U.S. source income. The remaining expenses were allocated on the basis of gross sales or (subject to a limitation) gross income.

The President advocates a permanent and more beneficial R&E allocation formula. The proposed rules would permit a 67 percent R&E expense allocation to U.S. source income. The remaining portion would be allocated on the basis of gross sales or gross income, with no limitation on the use of the gross income method.

U.S. taxpayers generally receive greater foreign tax credit benefits to the extent that their expenses can be allocated to U.S. source income rather than to foreign source income. Both the increase of the permanent allocation percentage to 67 percent and the removal of limitations on the use of the gross income method result in a greater allocation of R&E expenses to U.S. source income. These permanent allocation rules will provide a significant incentive for conducting R&E and for locating that activity within the United States.

FUNDING SUMMARY

(Revenue change in millions of dollars)

	1989	1990	1991	1992	1993
R&E expense allocation proposal	n.a.	−1,699	−749	−814	−887

g. Enhancing Energy Security

OVERVIEW

Sufficient energy supplies at reasonable prices are vital to the economic well-being of this country and to the preservation of our national security.

Domestic production should be stimulated but not by protectionist measures such as an oil import fee. An oil import fee would amount to a tax increase on everyone who uses energy. New energy exploration is needed—not more taxes.

Tax incentives can give the domestic oil and gas industry the necessary stimulus. Tax incentives are particularly needed for the small producers who are so vital to our energy security. Historically, independent producers have drilled a majority of America's exploratory wells.

There is a need to encourage new methods for recovering oil from old fields, as well as finding new fields.

Our national security requires a strong domestic oil and gas industry.

PRINCIPLES

- The President is committed to the development of programs to reduce America's dependence on foreign oil.
- The President believes that a return to high levels of exploratory drilling is needed to achieve greater domestic production. Such exploratory drilling requires independent producers with financial strength.
- The President believes that tax incentives targeted to exploratory drilling, tertiary enhanced recovery projects, and independent producers is the most cost-effective method of achieving these goals.
- The President believes incentives are needed because current prices of U.S. oil are low relative to the costs of finding and producing that oil. When the energy sector recovers, the proposed incentives would be phased out.
- The President believes that at long last the Federal Government should fully decontrol natural gas.

POLICIES

The President proposes four incentives to encourage the finding of new oil and gas fields and the reclaiming of old fields. The credits would be phased out if the price of oil reaches $21 per barrel.

The President proposes a 10 percent credit on the first $10 million of expenditures (per year per company) on exploratory intangible drilling costs (IDCs) and a 5 percent credit on the balance. The credit may be applied against both the regular tax and the minimum tax but will not eliminate more than 80 percent of the tentative minimum tax in any year in conjunction with all other credits and net operating loss carryforwards. Unused credits may be carried forward. The limits on the full 10 percent credit increases the proportion of the incentive going to the smaller independents.

To encourage increased production from enhanced recovery methods, the President proposes a 10 percent credit for capital expenditures on all new tertiary enhanced recovery projects. Teritary enhanced recovery projects use steam, carbon dioxide, or chemical injectants to remove oil and gas from oil fields. The credit would function in the same manner as the credit for exploration.

The President proposes elimination of 80 percent of current preference items generated by exploratory IDCs by independent producers under the minimum tax. IDCs are now an item of minimum tax preference to the extent the total expense exceeds an allowance based on net income and a first year amortization amount. The taxpayer is denied the benefit of amortization relating to later years. Further, net income is reduced by percentage depletion even though percentage depletion may be treated as a minimum tax preference. These problems are greatest for independent producers doing exploratory drilling. The proposal addresses this particular application of the minimum tax by eliminating 80 percent of the independent producer exploratory IDC amount that would otherwise be included as a preference.

The President also proposes modification of the oil and gas depletion rules that discourage the transfer of marginal wells to independent producers and result in the premature abandonment of producing wells. Independent oil producers are limited in their use of depletion deductions by two provisions: (1) "proven" properties transferred from integrated oil companies to independent producers are ineligible for percentage depletion, and (2) the deduction may not exceed 50 percent of the owner's net income from the property. The President proposes to remove the transfer rule restrictions and to raise the deduction limit to 100 percent of the property's net income.

FUNDING SUMMARY

(Revenue change in billions of dollars)

	1989	1990	1991	1992	1993
10 Percent credit for exploratory drilling	—	–0.2	–0.3	–0.3	–0.4
10 Percent credit for new tertiary enhanced recovery	—	*	*	*	*
Eliminate 80 percent of exploratory IDC tax preferences from minimum tax for independent producers	—	–0.1	–0.1	–0.1	–0.1
Modification of oil and gas depletion rules	—	*	*	*	*

* $50 million or less.

h. Pushing Out the Research Frontier: The Superconducting Super Collider

OVERVIEW

The Superconducting Super Collider (SSC) is a critical part of this Administration's initiative to strengthen the position of the Nation as a world leader in science and technology. The SSC holds the potential for new breakthroughs in science, technology, and education. It will produce discoveries, innovations, and spin-offs that could touch profoundly every American. The Superconducting Super Collider will be the world's most powerful atom smasher, producing particle collisions with total energies approaching 40 trillion electron volts, an energy 20 times greater than the highest energies available in the world today. The heart of the facility is a 53 mile racetrack shaped accelerator. Particles will be guided around this accelerator by nearly 10,000 state-of-the-art superconducting magnets. The total project cost is estimated at $5.9 billion, the largest pure science project ever envisaged for actual construction.

> *"We will succeed in that competition by doing what we do best—by exploiting our comparative advantage. And our greatest single strength for the future is not mining or manufacturing or even agriculture—it is our ability to expand the limits of our knowledge. From that will flow the scientific and technological advances that will enable us to compete and to raise the living standards of all the nations of the world."*
>
> George Bush

PRINCIPLES

- The Administration is committed to the construction of the SSC. The SSC will be a one-of-a-kind experimental facility that will ensure continued progress in advancing our knowledge of matter and energy at its most fundamental level.
- The SSC will provide the capability for the U.S. to remain the world's leader in the field of high energy physics well into the next century.
- The SSC will be used by scientists around the world. The facility will attract an international community of scientists who will travel to the U.S. to conduct state-of-the-art research.
- The SSC will also serve as a valuable training ground for students from over 100 university-based research teams located across the country.
- The Administration believes that the SSC should be a truly international facility. One third of the total project funding should be provided by non-Federal sources such as the host State and foreign countries that will share in the scientific and technological benefits that will accrue from the SSC.

POLICIES

The President is proposing budget authority of $250 million in 1990 for the Federal share of the construction of the Superconducting Super Collider.

The current request will allow DOE in 1990 to complete site-specfic designs of the technical systems and conventional construction facilities. Increases are also being proposed in the operating budget for the design, fabrication, and testing of the superconducting magnets by

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	100	250	+150	+150
Outlays	100	206	+106	+106

U.S. industry. Finally, construction funds are proposed to order long-lead time, critical procurements such as power stations and superconducting materials. The actual initiation of conventional construction on the site will be dependent upon the details of the non-Federal cost sharing commitments to the project obtained in 1990.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	100	250	392	494	450
Outlays	100	206	375	380	370

i. Expanding Biomedical Research: The Promise of a Healthier Future

OVERVIEW

Biomedical research holds out the promise of a healthier America, made possible by improved understanding of disease, refined prevention techniques, and better therapies.

Progress requires both knowledge and readiness—a readiness to seek out and use valuable discoveries. For example, scientists recently discovered that frogs produce magainins, which shield them from infection. This discovery may lead to powerful new antibiotics for humans.

The Administration seeks to accelerate basic research in partnership with industry, which has the role of developing new applications and marketing them. New partnerships are being formed to shorten the time between laboratory discoveries and their application.

Promising new techniques, like mapping of the human genome, hold new opportunities to discover the cause of many diseases, leading to their future remedy.

"We should try to reduce the need for care by devoting significant research attention to the prevention and cure of debilitating illnesses—illnesses like Alzheimer's, arthritis, and osteoporosis—that can keep us from caring for ourselves."

George Bush

PRINCIPLES

- Basic biomedical research is a classic "public good" which would be underfunded without Federal investment. U.S. investment advances the interests of the Nation and the world.
- Training is important to assure an ample supply of top quality, highly skilled biomedical researchers.
- The translation of basic knowledge into applications is critical, and Federal policies should facilitate private development of useful technologies.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	6,543	6,777	+234	+3.6
Outlays	6,250	6,600	+350	+5.6

POLICIES

Within the overall increase of 3.6 percent for all biomedical research excluding Human Immunodeficiency Virus (HIV), the Administration proposes a 6.6 percent increase for basic research, which provides substantial real growth. Training grants and fellowships will grow by 3 percent. These proposals will accelerate the accumulation of basic knowledge which will lead to improved health for Americans.

New partnerships will be formed with industry, and Federal funds for applied research will be maintained. Mapping the human genome will expand further to $100 million in 1990. These initiatives will promote American economic competitiveness and leadership in health-related industries.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority*	6,543	6,777	6,894	6,987	7,066
Outlays	6,250	6,600	6,709	6,826	6,914

* Note: Funding totals represent the National Institutes of Health, excluding HIV.

j. Expanding Our Knowledge Base: Improved Statistics

OVERVIEW

The President supports a sound, balanced program to collect and disseminate comprehensive and accurate statistics on America's population and its economy. In 1990, the Government will conduct the largest census ever, polling over 106 million housing units.

"Some things must remain as markers so that we know where we come from as a nation and who we are as a people."

George Bush

PRINCIPLES

- Strengthen social, economic, and trade statistics and analyses to improve the competitiveness of American businesses.
- Improve the accuracy and coverage of the constitutionally required decennial census while maintaining the confidentiality of individual responses.
- Provide accurate and timely population and housing statistics to meet national, State and local data needs for the next ten years.
- Improve the quality and reliability of socio-economic data to improve the effectiveness of Federal programs and meet the information needs of users.

POLICIES

The President proposes to increase the Federal Government's commitment to economic and demographic statistics by $842 million in budget authority, an increase of 129 percent over 1989. Outlays will rise by 136 percent.

- The quality, accuracy and timeliness of the decennial census will be improved through the unprecedented use of automation and new technologies. Automation will permit the rapid identification of problems with the collection of data and speed the processing and release of census data.
- $1.3 billion is planned to conduct the decennial census in 1990.
- The quality and accuracy of business and economic statistics will be improved through an investment of over $16 million. For example, planned enhancements include improved service sector statistics to reflect America's changing economy and improved foreign trade

PROPOSED CHANGE
(In millions of dollars)

	1989	1990	*Dollar* Change	*Percent* Change
Budget Authority	655	1,497	+842	+129
Outlays	672	1,587	+915	+136

statistics to provide accurate detailed data upon which to base trade policy and business decisions.

- Demographic surveys across government will be improved by the redesign of individual surveys reflecting decennial census results.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	655	1,497	432	279	275
Outlays	672	1,587	411	317	265

k. Promoting International Competitiveness

OVERVIEW

Maintaining and improving the Nation's competitiveness is primarily a task of private industry—driven by market forces. But government policies play an important role, in both the negative and positive sense. Barriers erected by government—regulatory and otherwise—can frustrate innovation and the translation of technological and scientific discoveries into marketplace production and distribution. Government—Federal, State and local—is a major player in the development of our human resources, including education and training.

Americans have become acutely conscious of the issue of competitiveness since the development in the decade of the 1980's of large foreign trade deficits. While the strong showing of exports in 1988 indicated that much of American industry is able to compete well in world markets provided it is not hampered by an unrealistically high exchange rate for the dollar, much remains to be done to reduce and then eliminate the trade deficit.

The Federal government has a continuing challenge in assuring that this nation remains fully competitive in a world environment where exchanges among nations are growing rapidly.

PRINCIPLES

To maintain and improve competitiveness several principles are important:

- There must be the fullest development of the Nation's human resources.
- Scientific and technological progress must be promoted.

- Barriers to innovation must be removed.
- Government regulations must continue to be assessed for their costs as well as their benefits.

POLICIES

The President will establish a Council on Competitiveness, chaired by the Vice-President. The Council will include the members of the cabinet most involved with competitiveness issues and problems.

The Council will review regulatory issues, and such other issues as may be referred by the President, bearing on competitiveness. In reviewing regulatory matters, the Council will be continuing the work of the former President's Task Force on Regulatory Relief—chaired in the Reagan Administration by then-Vice President Bush.

1. Improving Opportunities for Disabled Americans

OVERVIEW

There are approximately 36 million disabled Americans. Dozens of Federal Government programs provide benefits and services to this community.

All of these programs address important needs, but sometimes they fail to encourage independence, operate at cross purposes, miss some people, or operate less effectively than they should.

The billions spent annually by the Federal Government for those programs demonstrate the high Federal priority on aiding the disabled community. Greater effort is needed to coordinate these programs, to assure that all sectors of the population are properly served, and to help the disabled realize their full potential.

> *"I share your goal of integrating disabled Americans fully and equally into the mainstream of American life. . . . We are working to increase the economic and personal independence of disabled Americans."*
>
> George Bush

PRINCIPLES

- Federal programs for disabled persons should promote self-sufficiency and reduce barriers to employment; they should not perpetuate dependency.
- Federal policy for disabled persons can be improved through coordination and identification of programs that work.

POLICIES

The President will establish a policy working group of senior Administration officials who have responsibility for providing assistance to the disabled.

Membership of this group will include representatives from the Executive Office of the President, the Education Department, the Department of Health and Human Services, the Department of Veterans Affairs, and others.

The group will review policies, laws, regulations, and research plans. They will recommend changes needed to strengthen work incentives and to rationalize services across government programs. They will recommend ways to improve the efficiency and effectiveness of programs that serve disabled Americans.

2. INVESTING IN PEOPLE: EDUCATION

SUMMARY

Building a better America requires a well-educated America. Greater educational achievement for all children promotes sustained economic growth, enhances the Nation's competitive position in world markets, increases productivity and leads to higher incomes for everyone. The Nation must invest in its young people, giving them the knowledge, skills, and values to compete successfully in the marketplace and to build a better America.

> *"The challenge of the future is not just to make education more available, but to make it more worthwhile. . . . I believe the best thing we can do is invest in our young people. . . . Education is critical to our future, both individually and as a nation. If we are to improve our standard of living, protect and defend our democratic freedoms, and strengthen our moral character as a nation, nothing is more important than education."*
>
> George Bush

Providing quality education is fundamentally a state and local responsibility. When it comes to better schools, almost all of the wisdom, good answers, and money to pay the bills come from outside Washington, D.C. Federal leadership and funding, however, can make a difference.

Several underlying principles govern the President's education policy and initiatives.

First, the Administration will reward excellence and success in education: Federal incentives, in the form of public recognition and financial awards, will provide new catalysts for educational achievement.

Second, the Administration will target Federal dollars to help those most in need—where support can make a difference. Education is the key to opportunity; inadequate education denies a child the chance to compete. Federal programs help States provide that chance.

Next, the Administration will promote choice and flexibility—for families, students, teachers, and principals—to encourage competition and help provide the means and the incentives to achieve educational excellence. This Administration is committed to the principle of more choice at the local level—for students and parents to choose the schools that best meet students' needs; for teachers to experiment with techniques and ideas to help students learn better. The Administration will provide incentives to States to adopt flexible approaches to recruiting the best qualified teachers for their classrooms and principals for their schools.

Finally, the Administration will work to assure that students are actually receiving the highest quality education, by promoting greater accountability at all levels of the educational system. This Administration is committed to objective measurement and reward of progress toward quality education. The Nation invests annually more than $330 billion in education, an enormous commitment. Federal, State, and local authorities must assure that the funds they spend and the programs they manage accomplish their goals—as measured by student learning and achievement.

The President proposes a selected group of carefully defined initiatives to support these principles and to demonstrate his personal leadership of the national movement to improve the quality of American education. These initiatives would: reward schools that make substantial progress in educational achievement; reward excellent teachers; provide scholarships for the best science and mathematics students; provide new funding for magnet schools to enhance educational excellence; encourage States to broaden access to teacher and school principal positions; provide more endowment matching funds for Historically Black Colleges and Universities; support more experimentation for achieving better educational results; and incorporate policies and procedures for accountability into Federal programs.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	411	+411	n.a.
Outlays	—	58	+58	n.a.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	411	501	606	651
Outlays	—	58	345	492	593

a. Rewarding Successful Schools

OVERVIEW

Helping schools develop the skills and abilities of our children to their maximum potential is one of the Administration's major goals. In the highly decentralized world of American education, some schools consistently reach this goal; others do so for some students, but leave many others behind.

Achievable standards of excellence can and should be set for all students, for all teachers, and for every school. Our children deserve no less; our economic future demands it.

Helping children develop their potential can present special challenges for schools with large numbers or proportions of low-income children. The Federal Government provides billions annually for supplementary services for educationally disadvantaged children in these schools.

The Federal Government should serve as a catalyst in this effort, providing to successful schools the national recognition and financial rewards that clearly demonstrate the significance of school improvement.

> *"We should demand more from students [by imposing] higher academic standards. We should make sure students are learning what they should. We should demand more from teachers. We should demand more from principals. We should demand more from parents. In demanding more performance, we are providing more opportunity to all students, but particularly to those who have the furthest to go—because the poor are not served by meaningless diplomas."*
>
> George Bush

PRINCIPLES

- Educating all students to their full potential should be a basic goal of all schools.
- Demonstrated school-wide progress in achieving excellence deserves public recognition and support.
- Financial incentives can spur schools with especially difficult problems to significantly improve their educational achievement.

POLICIES

The President will propose legislation and a 1990 appropriation of $250 million for a new initiative to reward schools whose students demonstrate substantial educational progress. Funding for the initiative will increase each year until an annual funding level of $500 million is reached.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	250	+250	n.a.
Outlays	—	30	+30	n.a.

Guidelines will be established for the objective measurement of school improvement, emphasizing improved educational performance, a safe and drug-free environment, and fewer dropouts.

Elementary, secondary, and middle schools throughout the country will compete annually within each State for recognition as Presidential Merit Schools. States will add to the national criteria specific selection standards that reflect the mix of students and educational conditions within each State.

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Certificates of Recognition and grants will be awarded, with special emphasis on schools participating in the Federal compensatory education program ("Chapter 1"), and any others that enroll substantial numbers or proportions of children from low-income families.

Criteria for Chapter 1 Merit Schools will take into account the Chapter 1 Program Improvement criteria set by each State.

Awards will be scaled to demonstrated improvement and school size.

A school that receives a cash award may use the money for any purpose that furthers its educational programs. Support from other Federal, State or local sources may not be reduced because of the award.

The Secretary of Education's Blue Ribbon School recognition program, which addresses a variety of school characteristics in addition to student achievement, will remain in place for 1990, as another important way schools can gain national notice for achieving excellence.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	250	350	450	500
Outlays	—	30	212	337	434

b. Recognizing Superior Teachers

OVERVIEW

Hope for improvement in the schools depends most heavily on teachers, those now in the system and those who will enter in the years to come.

Teachers work every day with every child. When teachers are highly motivated and committed to excellence, children know it and are challenged to meet high standards of performance. If teachers are not highly motivated, they do not transmit the essential message of how exciting and important schooling is and how critical are the early years of effort to the child's future performance as a citizen and in the workforce.

The educational reform movement recognizes this central role for teachers. Teacher training is under rigorous review, teacher pay is rising, and more and more school systems are linking financial rewards to excellence in the classroom.

Excellent teachers love their work and believe in what they do. Their success deserves tangible recognition on a national level.

"We should provide merit pay and special recognition to reward good teachers—and the vast majority are good teachers, who really love their kids and their profession."

George Bush

PRINCIPLES

- School systems should develop standards of excellence for teachers, and effective and fair procedures for measuring success.
- In return for their efforts and their willingness to be held to high standards of excellence, teachers deserve public recognition, respect, and appropriate financial rewards.

POLICIES

The President proposes new legislation and $8 million in annual appropriations to establish the President's Award for Excellence in Education.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	8	+8	n.a.
Outlays	—	6	+6	n.a.

Award competitions would be held annually in each State. All elementary and secondary school teachers, in public and private schools, teaching any academic subject, could compete for recognition and awards.

The number of teachers receiving awards in each State would vary with the size of the State. Each award would be $5,000.

The award would go to the individual teacher and be available for his or her use for any purpose.

Appropriate ceremonies and events would be held following the selection of each year's award winners.

The National Science Foundation program that recognizes excellent teachers in mathematics and the sciences only, and provides awards to their schools, would remain a separate program of special recognition in these selected fields.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	8	8	8	8
Outlays	—	6	8	8	8

c. Establishing a National Science Scholars Program

OVERVIEW

A key factor in the competitiveness of American business in world markets today and in the future is the ability to develop new technology.

America needs talented scientists, mathematicians, and engineers to discover and apply new knowledge as well as to perform in those workplaces where high technology is already central. High school students must be well prepared in mathematics and the sciences and committed to further academic study to expand their knowledge and increase their skills.

Students need encouragement to take more courses in the sciences and mathematics, to apply themselves to their studies, and to excel.

> *"Our greatest single strength for the future is . . . our ability to expand the limits of our knowledge. From that will flow the scientific and technological advances that will enable us to compete and to raise the living standards of all the nations of the world."*
>
> George Bush

PRINCIPLES

- The national interest requires a greater commitment to science and mathematics.
- Schools should challenge all students to take more science and mathematics courses.
- The best students in every part of the country should know that in addition to the personal satisfaction they will gain from excellent performance in these fields, and the career options that will open to them, there are tangible rewards for excellence if they pursue the study of mathematics or the sciences at a college or university.

POLICIES

The President proposes to seek legislative authority to establish a National Science Scholars Program. An appropriation of $5 million will be requested for the first year, rising to $20 million per year by the fourth year.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	5	+5	n.a.
Outlays	—	4	+4	n.a.

National standards of excellence for high school seniors' achievement in the sciences and mathematics would be set for annual competitions for the National Science Scholarships.

One student would be nominated by each Member and Delegate in the House of Representatives, one by each Senator, and 30 by the President, for a total of 570 scholars each year.

The scholarships would be for four years for up to $10,000 per year.

Scholarships would be available for use at any accredited institution of higher education to which the student is admitted. Students would be required to major in the sciences, mathematics or engineering and show continuing excellent performance.

Awards for a student who qualifies for other Federal need-based aid or receives other scholarship aid would not result in total aid in excess of the cost of education at the student's school.

Students would have opportunities for summer jobs in Federal science laboratories.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	5	10	15	20
Outlays	—	4	9	14	19

d. Fostering Magnet Schools of Excellence

OVERVIEW

Magnet schools—schools with a special curriculum emphasis or other set of characteristics—offer parents an essential choice for their children. Children who go to magnet schools learn more. Magnet school strategies have been successful across the country.

No single method of education is best suited to all children. No single way of organizing schools (elementary, middle or secondary) and school systems is the best for every area or for every mix of students. One of the most encouraging features of the educational reform movement is the willingness of schools and school systems to experiment with alternative approaches and especially to open the school selection process to parents.

The Federal Government now finances magnet schools to further desegregation. This approach should be applied to achieve other worthy goals as well. Some school districts have used magnet schools to focus resources and attract students to mathematics and science, the arts, and other special curricula.

Magnet schools increase choices for parents and students and generate healthy competition among schools. These features improve the quality of education.

> *"Magnet schools are a way of promoting excellence and upgrading the quality of an entire school system."*
>
> George Bush

PRINCIPLES

- Expanding the use of magnet schools increases choice, expands opportunities for children, and ultimately improves the quality of all the schools.
- Federal funds can help States and school districts design and implement magnet schools more rapidly.

POLICIES

The President proposes a new authority and $100 million in new funding for magnet schools.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	100	+100	n.a.
Outlays	—	12	+12	n.a.

Legislation will authorize grants to States for the establishment of new magnet schools. The current authority for magnet schools for desegregation purposes will not be affected.

Magnet school grants will be available for schools offering choices from the full range of curriculum options. States will be encouraged to examine opportunities for development of magnet schools with mathematics and science orientations.

These new magnet schools will be in addition to any such efforts currently underway in the States and school districts. Special consideration will be given to proposals that offer recognition of the potential of children from low-income families.

Funds will be for initial costs, with a requirement that States and local school systems rapidly assume full operating costs.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	100	100	100	100
Outlays	—	12	80	92	100

e. Developing Alternative Certification Systems For Teachers and Principals

OVERVIEW

For the education of children to be the very best, their teachers must be the very best. Teachers must be highly motivated to teach and knowledgeable in their subject areas. In light of the shortages of competent teachers of mathematics and the sciences, it is especially important that qualified scientists and engineers who want to teach be allowed to bring their talents into the schools.

For teachers to do their best, they must work in school environments that demand and reward excellence. Creating and maintaining such schools is the primary responsibility of principals. The leadership role of principals is well documented as a key to effective schools.

In too many States and school districts, the pathway to becoming a teacher or a principal is blocked by certification requirements that have little to do with these central goals. Many certification systems make it difficult if not impossible for a person with excellent subject area knowledge and the desire and ability to teach to get into the classroom. Similar barriers face those with leadership qualities fully demonstrated in other fields who want to help improve the schools.

New college graduates and older persons seeking a second career in teaching or school administration are often frustrated by too many hiring criteria that do not relate to subject area knowledge.

A number of States and school districts are implementing creative and flexible certification systems; many more would do so in response to added incentives.

> *"We should break down the barriers to talented people who want to teach and who have demonstrated their competence in other fields."*
>
> George Bush

PRINCIPLES

- Enlarging the supply of good teachers and principals should be the goal of certification systems, not barring access.
- Federal funds can provide incentives to foster development of new systems and help pay for their implementation.

POLICIES

The President proposes new authority and $25 million for 1990 to make grants to States and school districts to develop alternative certification systems.

PROPOSED CHANGE
(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	25	+25	n.a.
Outlays	—	3	+3	n.a.

Grants will be one-time only, with States allowed to spend the money over several years, if needed.

Grants will be for additional costs above what the States are now spending on such systems.

States can use the funds for whatever purpose necessary, including design and testing of different options tailored to their circumstances, establishing administrative structures, training staff, developing recruitment strategies, and evaluating the new systems.

The existing authority for alternative teacher certification demonstrations funded by the Federal Government in the Fund for the Improvement and Reform of Schools and Teaching will remain in place to support carefully designed demonstration projects from which States and localities can learn new techniques.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	25	—	—	—
Outlays	—	3	17	4	*

* Less than $500,000.

f. Expanding Experiments For Educational Achievement

OVERVIEW

Educational reform is sweeping the country. States and school districts are responding to the public's demand to improve the quality of education for all children by trying a host of new ideas and implementing old ideas that worked.

One of the Federal Government's most important responsibilities is to support experimentation whose results help States and localities find out what can work in their schools.

Innovation is necessary on every front in elementary and secondary education: teaching, administration, educating disabled persons, helping low-achievers perform better, and bringing children at risk back into the mainstream.

The needs are for the collection of critical data, a sharp focus on demonstrating what works best, and getting the information and results to the States and schools which have the real job to do.

> *"We should also encourage experimentation and innovation in our public school system. Only by testing concepts in practice will we be able to learn which reforms work and which do not."*
>
> George Bush

PRINCIPLES

- Effective research and demonstration focused on programs that work can speed the educational system's progress toward substantial improvements in teaching and learning.
- Dissemination of data and the results of successful experiments is an essential element in broadening application of new methods.

POLICIES

The President proposes $13 million in new resources to expand experiments in educational innovation and data collection.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	—	13	+13	n.a.
Outlays	—	2	+2	n.a.

The new funding will permit the Secretary of Education to set flexible priorities for experiments, establish objective rules for evaluating performance, and disseminate as rapidly as possible information on what works and what does not.

Experiments and data collection will be designed to address issues across the full spectrum of educational issues: teaching and learning methods, school organization and management, problems of populations with special needs, parental choice, mathematics and science curriculum design, integrating higher order skills into school curricula, improving early childhood education programs, and others.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	13	13	13	13
Outlays	—	2	10	13	13

g. Endowing Historically Black Colleges and Universities

OVERVIEW

For over a century the Historically Black Colleges and Universities (HBCUs) have been a unique and essential part of America's heritage. At a time when the law countenanced racially separated systems of higher education, and many schools would not open their doors to Black Americans, these institutions offered them the best, and often the only opportunity for a higher education. Without the HBCUs, far fewer Black Americans would have achieved economic and professional success.

Today, racial discrimination is not tolerated; yet, the Historically Black Colleges and Universities still represent a vital component of American higher education, enriching educational choice.

The Federal Government has long recognized the unique place which the HBCUs occupy. Grant programs provide resources directly to these schools to improve and expand their educational programs. Presidential Executive Orders assure appropriate consideration of HBCUs in the allocation of other resources across the Government.

The most important support which the Government can provide, however, is incentives to increase endowments. Large and growing endowments are the key to any institution's long term financial health and security.

"Black colleges and universities traditionally have instilled a strong sense of self-worth, pride, and moral fiber in the men and women that pass through their doors."

George Bush

PRINCIPLES

- Historically Black Colleges and Universities merit Federal support because of their unique historical role.
- Endowment building is the Government's most effective contribution to the future financial strength of these institutions.

POLICIES

The President will propose a total of $60 million over four years, beginning with $10 million in Fiscal Year 1990, for endowment matching grants for Historically Black Colleges and Universities.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	n.a.	10	+10	n.a.
Outlays	n.a.	1	+1	n.a.

HBCUs are currently eligible to compete for endowment matching grants under Part C of Title III of the Higher Education Act. Title III provides endowment matching grants to HBCUs as well as other institutions with financial needs. In 1988, HBCUs were awarded $2 million in Title III endowment matching grants.

The additional appropriations will be reserved solely for the HBCUs, under the terms and conditions of Part C.

This money will provide a unique opportunity for these schools to launch new fund raising campaigns to generate increased non-Federal support.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	n.a.	10	20	20	10
Outlays	n.a.	1	9	18	19

h. Improving Accountability in Education

OVERVIEW

Accountability is the key to successful management of any enterprise. Educational programs often fail to incorporate principles of accountability. To improve the education of America's children, educational programs at every level must set standards of excellence and hold students, teachers and schools accountable for meeting those standards.

The demand for accountability is a prominent part of the education reform movement. School districts have begun to make public more and more information about the performance of students in individual schools and have instituted competency tests for students and teachers. States have undertaken measures to improve the certification of teachers and to prod underperforming schools and school districts into corrective actions. Many of the initiatives in the President's program are designed to enhance accountability in education: the Merit Schools, Magnet Schools and the President's Award for Excellence in Education.

The Federal Government's education programs should be a model to which States and localities can look for how accountability systems are established and adhered to.

"There must be an emphasis on accountability—setting goals, objectively measuring progress toward those goals, changing what doesn't work, and rewarding what does. It seems like common sense, but it is too seldom done."

George Bush

PRINCIPLES

- A focus on accountability will improve the quality of education at all levels and assure that the schools deliver on the promise of quality education for all children.
- The Federal Government should set the example for accountability in education programs.

POLICIES

The President has directed the Secretary of Education to assess the application of accountability principles in Federal programs.

The Secretary will review mechanisms in place in elementary and secondary and in post-secondary programs for their adequacy and effectiveness.

Where accountability systems are inadequate or where they do not now exist at all, the Secretary will develop recommendations for administrative, regulatory or statutory changes needed.

These actions will assure that tax dollars are spent in the ways most likely to assure achievement of educational goals and that waste and abuse are eliminated.

3. EXPANDING ECONOMIC OPPORTUNITIES: ENTERPRISE ZONES

OVERVIEW

Despite sustained overall national prosperity and growth, certain areas have not kept pace.

To help these areas share in the benefits of continued economic growth, this Administration proposes enterprise zones to stimulate local government and private sector revitalization of economically distressed areas.

Enterprise zones can encourage private industry investment and job creation in economically distressed areas by removing regulatory and other barriers inhibiting growth. They can also promote growth through selected tax incentives to reduce the risks and costs of expanding in severely depressed areas. Enterprise zones will let business and innovation bloom in places where there has been little hope and little opportunity.

A new era of public/private partnerships is needed to help distressed cities help themselves. The enterprise zone initiative will help determine the effectiveness of selected Federal tax incentives and reduced Federal regulations in stimulating the private and local public investment needed to revitalize economically deprived areas.

> *"I will ask Congress to join me in creating enterprise zones in the most depressed areas of our cities. . . . Policies of opening up economic growth and opportunity can work and will work because they help people help themselves."*
>
> George Bush

PRINCIPLES

- The President is committed to increasing the opportunity for all areas of the nation to share the benefits of growth.
- Cities and towns, through creative partnerships with the private sector, are in the best position to help themselves.
- A key to solving the problem is elimination of barriers to growth that preclude free markets and private industry investment from revitalizing our nation's neediest areas.
- States should join with the Federal Government in promoting local public/private partnerships by extending their own incentives and regulatory relief in enterprise zones.

POLICIES

A key purpose of this enterprise zone initiative is to revitalize economically distressed areas by providing selected Federal employment and investment tax incentives. These tax incentives will be offered in conjunction with Federal, State, and local regulatory relief. Up to 70 zones will be selected between 1990 and 1993.

There will be both capital-based and employment-based tax incentives, with the Federal revenue loss totalling $150 million in 1990. The depth of the tax subsidies will vary, with deeper

subsidies in the early years that decline over time. Total Federal revenue losses will gradually rise, however, as more zones are designated.

States' and localities' willingness to "match" Federal incentives will be considered in selecting the special enterprise zones to receive these additional Federal incentives.

Over a four year period, the Administration estimates a total loss in Federal revenues of $1.05 billion: $150 million in 1990, $200 million in 1991, $300 million in 1992 and $400 million in 1993.

FUNDING SUMMARY

(Revenue change in millions of dollars)

	1989	1990	1991	1992	1993
Enterprise Zone Incentives....	—	–150	–200	–300	–400

C. ENDING THE SCOURGE OF DRUGS

SUMMARY

President Bush is committed to ending drug abuse in America.

The policy of this Administration is "zero tolerance." No amount of drug use is acceptable. And, zero tolerance should be the policy of every state in the Union—of every county and town, of every school, business, and community group—in fact, of every American.

The destructive and pervasive effect of illegal drug use in our society is appalling. Over 32 million Americans used illegal drugs last year. Nearly 5,000 deaths were reported from use of cocaine and other drugs in 1987, in addition to 146,000 hospital emergency room admissions for drug abuse in that year. The cost to the Nation of drug and alcohol abuse, in terms of increased health costs, absenteeism from work, law enforcement and prevention programs is estimated to exceed $100 billion annually. And this says nothing of the tens of thousands of damaged lives and destroyed families caused by the use of illegal drugs.

> *"My friends, we have work to do. . . . There is crime to be conquered, the rough crime of the streets. . . . There are few clear areas in which we as a society must rise up united and express our intolerance. The most obvious now is drugs. . . . And there is much to be done and to be said, but take my word for it—this scourge will stop."*
>
> George Bush

Historical evidence suggests that, like certain diseases, the plague of drug addiction and abuse in any nation eventually abates and virtually disappears. This gives us reason for hope. But the society cannot wait for history to repeat itself. Action on many fronts is needed to speed the day when drugs are no longer a serious problem.

Drugs are a complex social problem with national and international dimensions. Since 1981, the Federal anti-drug budget has grown by nearly 370 percent, and the Bush Administration is requesting nearly $6.0 billion in 1990 to fight this insidious foe.

The Administration proposes nearly $1 billion in new outlays for anti-drug programs, a 21 percent increase over 1989 and 47 percent over 1988, to intensify our all-out effort against drug abuse. But the problem cannot be solved by dollars alone, nor by the Federal Government alone. The situation demands an ongoing, consistent effort by families, schools, churches, businesses, community leaders, health organizations, law enforcement institutions and heads of state. This battle must be waged on four fronts: education/prevention, treatment, eradication/interdiction, and enforcement/punishment. This means dealing with both demand and supply by:

- Educating the Young: Drug Prevention.—Establishing "zero tolerance" as an attitude and a way of life by educating our children at home and at school, from kindergarten through college, on the dangers of experimenting with drugs. The Administration requests nearly $1.1 billion to educate our young people to say no to drugs through programs of proven effectiveness targeted at areas of greatest need.
- Reclaiming Lives: Drug Treatment.—Encouraging those who fail to heed the signals and do use drugs to seek treatment—the aim is to reclaim lives, not abandon them. The Administration proposes over $700 million to expand the Nation's capacity to provide drug abuse treatment, particularly for the indigent, disadvantaged, youth and expectant mothers.

- Going to the Source: Drug Law Enforcement.—Eradicating drugs at the source, interdicting them before they cross our borders, and destroying the trafficking cartels that profit so richly from drug addiction. The Administration proposes over $4.1 billion to step up the pressure on the suppliers of illegal drugs by providing grants to State and local law enforcement, beefing up the Federal enforcement agencies, and enhancing our drug prosecution, detention and intelligence capabilities.
- Strengthening Our Laws: Drug Penalties.—Enforcing tough drug enforcement laws, including the death penalty for drug kingpins and drug-related murders. The Bush Administration will vigorously enforce existing drug laws, demand even tougher penalties for drug traffickers and apply pressure to the "casual user" to stop using drugs.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	5,331	5,966	+635	+12
Educating the Young: Drug Prevention	(941)	(1,087)	(+146)	(+16)
Reclaiming Lives: Drug Treatment	(621)	(735)	(+114)	(+18)
Going to the Source: Drug Law Enforcement	(3,770)	(4,144)	(+374)	(+10)
Strengthening Our Laws: Drug Penalties	——Funding Not Applicable——			
Outlays	4,569	5,543	+974	+21
Educating the Young: Drug Prevention	(681)	(969)	(+288)	(+42)
Reclaiming Lives: Drug Treatment	(534)	(661)	(+127)	(+24)
Going to the Source: Drug Law Enforcement	(3,354)	(3,913)	(+559)	(+17)
Strengthening Our Laws: Drug Penalties	——Funding Not Applicable——			

The President has instructed his new Drug Policy Director to implement the requirements of Title I of the recently enacted Anti-Drug Abuse Act of 1988. In that Act, Congress created a new post of Director of National Drug Control Policy, often referred to as the "Drug Czar." The Director is responsible for developing a national drug control strategy that will guide the Nation's anti-drug efforts, and for reviewing the allocation of resources to these efforts. Further, he shall "make recommendations to the President . . . regarding changes in the organization, management, and budgets of Federal departments and agencies" engaged in the anti-drug effort.

As he develops the strategy, the Director will focus on how to maximize our efforts and get the most return from our drug resources—both Federal and non-Federal. In the strategy, which is due six months after he is confirmed by the Senate, the Director will call on all segments of our society to become involved in the anti-drug crusade.

Apart from the drug problem itself, the broader issue of reducing crime and dealing with offenders requires both additional resources and a tough attitude toward enforcement and punishment of all of our laws, not just our drug laws. These issues are discussed in the last paper:

- Intensifying the Attack on Crime.—The Administration is requesting a total of $4.5 billion for other, non-drug criminal justice functions in the areas of law enforcement, corrections and litigation. These resources target such high priorities as white collar crime, organized crime and foreign counterintelligence. The funding estimates displayed below are in addition to the drug funding estimates shown elsewhere in this chapter.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	4,025	4,460	+435	+11
Outlays	3,979	4,297	+318	+8

1. EDUCATING THE YOUNG: DRUG PREVENTION

OVERVIEW

For a decade, President Bush has stressed the importance of educating our children and young adults on the dangers of drugs and has called repeatedly for the Federal government to work with parents, teachers, churches and other community groups to develop a comprehensive drug education program.

> *"Fundamentally, the drug problem in America is not one of supply, but of demand. As much as we do to bust the smugglers and the dealers, as much as we do to eradicate crops and stop the flow of drugs into this country, as long as Americans are willing to pay billions of dollars for illegal drugs, somebody somewhere in the world will provide them.*
>
> *"I will do everything I can as President to help with the best information, the best research, and the strongest effort possible to get the message to our young people to 'just say no' to drugs."*
>
> George Bush

The first front in the fight against drug abuse is to get our children to realize the fearful threat to their health, their future and their lives. As they become aware of the devastating effects of drugs, they will stop buying them and put the suppliers out of business.

PRINCIPLES

- All schools, from kindergarten to college, should develop and implement anti-drug programs for the classroom.
- Schools should challenge students to get involved in ending drug use among their peers.
- Schools and colleges should adopt tough "no use" disciplinary policies and prove to students by aggressive enforcement that drug use will not be tolerated.

POLICIES

- The Administration is requesting nearly $1.1 billion for drug prevention activities, a 16 percent increase over 1989. This funding includes both ongoing programs and new initiatives.
- The Administration requests $367 million for the Drug-Free Schools and Communities program, a $12 million increase over 1989. These programs: provide grants to States for drug prevention education and to institutions of higher education to implement drug prevention education programs on campus; train teachers in the implementation of drug prevention education techniques; and fund a variety of other activities, including enforcement, to help young people understand why they must reject drugs.
- In addition, the Administration proposes $25 million for a new drug prevention initiative: Urban Emergency Grants. These grants will award funds to a number of city school systems with the worst drug problems. Schools will have maximum flexibility to propose a mix of education, security, parent and student involvement and special programs for children with known drug problems.

- The Administration also requests $35 million for a new program of community partnership grants for drug abuse prevention. This program, administered by the Department of Health and Human Services, will make grants to community organizations to stimulate local drug prevention efforts involving parents, schools, academia, businesses and youth and other high risk individuals. Emphasis will be placed on substantial voluntary participation by the community and grants will be made to communities based on need and innovative approaches.
- Approximately $45 million of the Department of Justice's $150 million drug grant program to local governments will be devoted to drug prevention activities. These additional resources will enable such successful programs as the Crime Prevention Campaign's "McGruff the Crime Dog" to continue and expand to more schools.
- In order to ensure that we are getting the best return on our investments, the President will ask his Drug Policy Director to support research in connection with the review, formulation and implementation of the drug control effort, both on the demand and supply side. Additional funding of $5 million is requested for this purpose.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	941	1,087	+146	+16
Outlays	681	969	+288	+42

2. RECLAIMING LIVES: DRUG TREATMENT

OVERVIEW

President Bush supports Federal grants for the treatment of addicts. He recognizes that drug abusers are not strangers: they are our neighbors, our children and our friends. His policy balances firmness with compassion.

> *"At the Federal level, we must attack the problem not just on one front or another, but on all fronts at once. . . . It means providing treatment for addicts who want help. And it means educating our young so that they never get hooked.*
>
> *"There's no point in just arresting and releasing users time and time again. We should identify and support treatment programs that have proven effective."*
>
> George Bush

PRINCIPLES

- Link Federal assistance for treatment programs to the success rate of these programs.
- Give priority in drug education and treatment to expectant mothers and youth.
- Focus Federal grants on those areas of the country with the greatest problem.

POLICIES

- The Administration proposes $735 million for drug treatment activities, an 18 percent increase over 1989.
- The President's budget contains a $25 million grant program to reduce the time a person must wait for admission to a drug treatment program.
- In addition, the Administration requests $30 million for a new grant program to support expansion of treatment capacity for the indigent, disadvantaged, youth or expectant mothers in selected States which are seriously committed to expansion. These awards, administered by the Department of Health and Human Services, will go to programs of proven effectiveness and will be directed to areas of the country with greatest need (i.e., those with waiting lists or that lack treatment services). In the spirit of Federal/State partnership, States would agree to maintain the added treatment slots for at least three years after receipt of the awards.
- The President also proposes tripling the funding for HHS's research into effective treatment programs, to over $7 million in 1990.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	621	735	+114	+18
Outlays	534	661	+127	+24

3. GOING TO THE SOURCE: DRUG LAW ENFORCEMENT

OVERVIEW

The President has stressed the importance of taking the fight against drugs right to the source, both in the U.S. and internationally. Eradication at the source requires international cooperation. Stopping drugs before they reach our borders is an enormous challenge, but one that is met every time a shipment of drugs fails to make it to the street. Investigation and prosecution of drug cartels requires strengthened law enforcement at all levels of government.

> *"To those who think America will shrink from this challenge, I say this: We have not spent the last 200 years of defending our country from despots and dictators, only to lose our streets to drug dealers and gangs. The war against drugs must begin at home, and it must begin with law enforcement."*
>
> George Bush

PRINCIPLES

- Shrink the supply of illegal drugs by eradicating crops at their source and destroying the laboratories that process them.
- Vigorously patrol our borders and international waters to interdict drugs in transit to the U.S.
- Strengthen law enforcement efforts domestically at all levels of government—Federal, State and local.
- Ensure that adequate resources are available to prosecute and incarcerate the offenders once they are apprehended.

POLICIES

- The Administration requests $4.1 billion for drug law enforcement programs in 1990, a 10 percent increase over 1989.
- Funding for the Drug Enforcement Administration will add over 330 new positions and increase its strategic and operational intelligence capabilities as well as its operations in foreign countries.
- Funding for the State Department's Bureau of International Narcotics Matters will increase by $14 million to $115 million in 1990, allowing for enhanced crop eradication and lab destruction in foreign drug producing countries, especially in the cocaine-producing countries of South America.
- The U.S. Customs Service will greatly expand its program of inspection of containerized cargo. This will allow Customs to increase its inspection capacity by about 50 percent. In addition, $3 million is requested for additional Customs money laundering initiatives. In total, approximately 550 staff will be added to the Customs Service's drug interdiction program, totalling $442 million.
- The Coast Guard drug interdiction budget will increase by 9 percent to $690 million in 1990, aimed at interdiction of drug smugglers. The Coast Guard will use this funding

to support an increased tempo of drug interdiction operations with both air and sea resources. Additional funding will be provided for intelligence support for the expanded sea and air patrols.

- Over $300 million is proposed for the involvement of the Department of Defense in drug interdiction activities.
- Funding of $150 million for the Department of Justice's drug grant program is requested, $105 million of which will be devoted to assisting State and local law enforcement agencies through activities such as multi-jurisdictional drug task forces and career criminal prosecution programs. The remaining $45 million will fund drug prevention activities at the State and local level.
- Nearly $215 million is requested for the new Organized Crime Drug Enforcement account. This program, which draws on 11 Federal agencies, coordinates complex drug investigations in 13 regional task forces around the country.
- Federal drug prosecutions in 1990 are expected to increase by 3,600 cases over 1989 as $18 million is added for the U.S. Attorneys.
- Resources for the U.S. Attorneys will also be increased to target asset forfeiture and civil enforcement efforts. As a result, asset forfeiture collections are expected to reach $470 million in 1990, $20 million more than is estimated to be collected in 1989.
- Funding for prisons is designed to reduce the overcrowding rate in Federal prisons by at least 50 percent by 1995.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	3,770	4,144	+374	+10
Outlays	3,354	3,913	+559	+17

4. STRENGTHENING OUR LAWS: DRUG PENALTIES

OVERVIEW

Zero tolerance will be the watchwords of the Bush Administration, applied to user and trafficker alike. Drugs are not cool anymore. Attitudes have changed dramatically. President Bush will build on this positive change in attitudes to create a nation where it is unacceptable for any person to use illegal drugs and where drug traffickers are prosecuted to the full extent of the law.

> *"Some say drug use is just a health problem; I say even more it's a criminal problem. Drug users and possessors should know that they may end up in prison if they don't straighten out.*
>
> *"If you do crime, you do time."*
>
> George Bush

PRINCIPLES

- Demand even tougher and mandatory sentences for dealers, including the death penalty in select cases.
- Demand severe sentences for dealers who hire children to carry or sell their drugs.
- Encourage the judiciary to strictly apply the law to convicted drug offenders.

POLICIES

- The Administration will call for the strict application of the penalties contained in the Anti-Drug Abuse Act of 1988, which provides for the death penalty for those who commit drug-related murders and for increased prison sentences for other drug-related crimes.
- Federal drug prosecutions in 1990 are expected to increase by 3,600 cases over 1989 as the Administration continues to target drug offenders as a top priority of the U.S. Attorneys.
- The President will appoint judges who will enforce, not make, the law.
- The Supreme Court recently upheld the constitutionality of the new Federal Sentencing Guidelines. The Guidelines will increase the number of offenders sent to prison and impose harsher penalties on repeat offenders, such as those who break our drug laws. In addition, the length of time offenders serve in prison will increase as parole is phased out.

5. INTENSIFYING THE ATTACK ON CRIME

OVERVIEW

The Administration is committed to addressing crime in our nation. While State and local governments have the principal responsibility for administering justice, the Federal Government has a critical role to play. Over the past eight years, funding for the Department of Justice has grown by nearly 180 percent. The Department of Justice will continue to be at the heart of the Bush Administration's strategy to make America safe from crime.

> *"Crime is a plague that strikes across all sectors of sociey and nobody is exempt. . . . The first priority is our law enforcment system—to protect the safety of our neighborhoods and the well-being of ordinary, law-abiding citizens."*
>
> George Bush

PRINCIPLES

- Strengthen law enforcement at all levels of government—Federal, State and local.
- Provide swift prosecution and sure punishment. Implement new Federal Sentencing Guidelines that mandate tougher, more uniform sentences; ensure that criminals are not set free.
- Address the needs of innocent Americans who are the victims of crime.
- Expand prison capacity so that criminals are not turned loose for lack of space. Reduce the level of overcrowding in Federal prisons.
- Prevent the illegal entry of goods and aliens into the United States.

POLICIES

The Administration proposes to increase the Federal Government's resources devoted to combatting crime. This paper discusses the Administration's major, non-drug related activities and initiatives, totalling $4.5 billion, an increase of 11 percent in budget authority and 8 percent in outlays over 1989.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority:				
Corrections	842	968	+126	+15
Law Enforcement	2,313	2,496	+183	+8
Legal Activities	869	996	+127	+15
Total	4,025	4,460	+435	+11
Outlays:				
Corrections	737	929	+192	+26
Law Enforcement	2,371	2,380	+9	—
Legal Activities	871	988	+117	+13
Total	3,979	4,297	+318	+8

Note: The above figures are in addition to those shown in "Going to the Source: Drug Law Enforcement."

- Our Nation's fight against crime will be improved by adding more personnel, training law enforcement personnel, purchasing equipment, automating essential functions, and expanding intelligence capabilities.
- The Federal Bureau of Investigation, the Criminal Division of the Department of Justice, and the U.S. Attorneys will expand criminal investigations and prosecutions.
- The Federal Bureau of Investigation will focus its resources ($1.4 billion) on conducting high priority investigations in organized crime, white collar crime, counterterrorism, and foreign counterintelligence.
- The vital role played by State and local agencies in making America crime free will be strengthened. For example, over 150,000 State and local law enforcement personnel will be trained by the Federal Bureau of Investigation at its training academy and in the field.
- To ensure the effective administration of the Nation's laws, $996 million, an increase of 15 percent, is requested for the legal activities of the Department of Justice. Prosecutions will be swifter, witnesses will be protected, and punishment will be stronger under new sentencing guidelines. These resources are an essential complement to growth in other law enforcement areas.
- To aid the victims of crime, the Federal Government will provide the fully authorized level of $125 million in 1990, $31 million higher than 1989.
- The Administration proposes an ambitious program to expand prison capacity to meet the growth of the Federal prisoner population.
- The Administration requests $964 million to support the Immigration and Naturalization Service's efforts to protect our Nation's 6,000 miles of borders from the unlawful entry of goods and aliens and to expand detention capacity.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	4,025	4,460	4,632	4,838	4,941
Outlays	3,979	4,297	4,400	4,596	4,694

Note: The above figures are in addition to those shown in "Going to the Source: Drug Law Enforcement."

Funding shown in the above table, when combined with funding in the prior anti-drug abuse tables, provides for substantial growth in crime related programs. For example:

- For prisons, 1990 funding will be $1,564 million, $194 million more than provided in 1989. The increase will be devoted to decreasing the level of prison overcrowding and increasing the guard-to-inmate ratio to maintain effective control within prison walls.
- For Federal litigators and associated staff who prosecute criminals and defend the taxpayers' interests, 1990 funding will be $869 million, $65 million more than provided in 1989. This will help ensure that criminals are not put back on the street for a lack of legal resources.
- For housing unsentenced prisoners, 1990 funding will be $147 million, $37 million more than was provided in 1989. This increase will ensure that unsentenced prisoners promptly appear in court for sentencing.

D. MEETING SPECIAL OBLIGATIONS: A KINDER, GENTLER AMERICA

1. PROTECTING THE ENVIRONMENT

a. Strengthening Our Commitment to Cleaner Air

OVERVIEW

The Nation needs a new Clean Air Act. After almost two decades and the public and private expenditure of over $200 billion, much has been accomplished. But many of the Nation's cities are not meeting air quality standards; and new problems—the national and global effects of air pollution that were not envisioned at the time of the Clean Air Act of the 1970's—must be addressed. The Administration believes that a fresh approach to the Clean Air Act can help meet this Nation's environmental needs without compromising our unprecedented record of economic growth.

> *"I support reauthorization, correction and strengthening of our clean air laws—with realistic timetables and tools to get the job done. . . . On the question of acid rain, the time for study alone has passed. We know enough now to begin taking steps to limit future damage; action we take today—even as scientific inquiry continues—is an insurance policy against future disaster."*
>
> George Bush

PRINCIPLES

Addressing Local Air Quality Problems: Carbon Monoxide and Ozone.

The President is committed to cleaner air in the Nation's cities. This requires a credible commitment, timetable, and strategies for the different regions of the country.

It is now clear that different cities have varying climatic conditions, industrial mixes, and automobile use patterns. After two decades, some gains have been made; but significant air quality problems remain in many of the Nation's largest cities. As a result, appropriate solutions with different timetables tailored to meet local circumstances are required.

- Los Angeles is committed to alternative fuels such as methanol as a key part of cleaning up its smog problem, the worst in the Nation.
- Denver has adopted a flexible strategy using oxygenated fuels as an important part of its effort to attain cleaner air.

Other cities will be able to use innovative as well as traditional approaches in addressing this problem. Draconian limits on economic growth and the use of the automobile should not be required to give Americans clean air at levels they are willing to pay for, but it will require significant Federal, State and local leadership and innovative approaches from government and industry.

Acid Rain

The President is also committed to ending the long debate on acid rain. The time for action has come. This Administration will ask Congress to establish an acid rain program that

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will obtain significant SO_2 and NO_X emission reductions, balancing competing interests by specified dates.

To provide real reductions as quickly and efficiently as possible, the Administration's program will include market-based approaches, supplementing and modifying the traditional command-and-control approaches. The goal is to get the Federal Government out of the detailed regulation of industry decisions and reduce the need for elaborate EPA-approved, State-prepared emission reduction plans. This approach provides greater flexibility and incentives for the development of innovative, lower cost ways of achieving regulatory goals.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	190	710	+520	+274
Outlays	92	120	+28	+30

POLICIES

- The Administration will propose legislation to reauthorize the Clean Air Act, ensuring progress toward meeting air quality standards in the Nation's major cities and achieving significant reductions in SO_2 and NO_X emissions.
- The legislation will provide flexibility to states and industry to adopt least cost compliance strategies.
- The legislation will provide incentives for the early deployment of innovative emission reduction techniques; and remove disincentives to the use of clean-burning fuels like natural gas, methanol, and ethanol.

The President will honor the commitment to the Canadians to devote $2.5 billion in Federal funds over five years for the Clean Coal Technology Program. For 1990, the President proposes $710 million, an increase of 274 percent over 1989. The budget also proposes that the remaining funds be provided in 1991 and 1992, consistent with previous commitments.

Global Climate

Global cooperation is critical in developing solutions to many of our most pressing environmental problems. The Montreal Protocol limiting the production and use of chlorofluorocarbons (CFCs) and halons represents an important first step. The Administration will work to achieve the worldwide ratification of this historic accord, and will charge market value for the scarce rights to produce CFCs in order to capture the value of those rights for the public's benefit.

The Administration is committed to continuing and expanding the leadership role of the United States in protecting our global environment. Specifically, this Administration will explore international agreements that address the issues of global warming using innovative approaches to controlling emissions. The Administration also plans to explore other measures that could provide insurance against the potential consequences of global climate change, such as the recent agreements limiting production of CFCs. It will also seek to promote mitigative

measures—e.g., including environmental consideration in multilateral development bank lending policies—that will help preserve the world's remaining tropical forests.

b. Preserving and Expanding Recreation Lands

OVERVIEW

America's parks and open spaces are some of the Nation's most precious resources—they are national treasures. Our national parks, forests, wildlife refuges, and similar areas are not only environmentally significant, they help meet the continuing demand for outdoor recreation. It is the Federal Government's duty to properly care for this land—to effect the wise stewardship the American people expect and deserve.

Great progress has been made in the past eight years in improving the operation and maintenance of existing Federal recreation areas. But, this Administration also supports a program of acquisitions of precious land and water resources for the enjoyment of present and future generations. Therefore, the Administration proposes to proceed with purchases of high-priority lands. A limited, systematic program of Federal land acquisition is a prudent investment for the future, even in our current era of fiscal restraint.

The proper tool for financing Federal land acquisition is the existing Land and Water Conservation Fund (LWCF). Since its establishment in 1965, over $4 billion has been appropriated from the LWCF for this purpose. The program was recently reauthorized by Congress through the year 2015. The LWCF has been a success, and it should continue to give Americans the chance to acquire—and to enjoy—land and water resources.

> *"I am a strong supporter of protecting our parks—they are America's pride and joy. . . . I believe we should continue the Land and Water Conservation Fund, which funds the acquisition of new parklands and wildlife refuges. . . . This is one legacy which we must preserve for generations to come."*
>
> George Bush

PRINCIPLES

- The President supports a limited but sustained program of Federal recreational land acquisition financed by annual appropriations from the LWCF.
- Funds appropriated for land acquisition should be targeted to ensure preservation of our Nation's most valuable natural and cultural resources, as identified by the professionals of the Interior and Agriculture Departments.
- Insofar as possible, acquisition funding should also be targeted to those Federal recreation areas experiencing the sharpest growth in recreation use.
- Parks that will be enjoyed by people should be our top priority. The Administration is particularly committed to the development and expansion of existing national parks in and near urban areas, such as the Santa Monica Mountains National Recreation Area.
- Federal spending to protect and preserve recreational resources should not substitute for continued, vigorous efforts by State and local governments and the private sector to address this need. The Federal Government will continue to provide technical assistance and advice to promote these efforts.

- Appropriations from the LWCF to fund State grants for recreational land acquisition and development should be foregone, until such time as the Federal Government's backlog of authorized, unfunded land acquisition is fully addressed.

POLICIES

Consistent with the objectives of the President's Commission on Americans Outdoors (December 1986), and the Task Force on Outdoor Recreation Resources and Opportunities (July 1988), the President proposes to fund LWCF-financed Federal recreational land acquisition at the 1989 enacted level of $206 million in 1990 and through the outyears. This represents an increase of $182 million from the January budget request for 1990, and a $728 million increase over the 1990–93 period.

As in 1989, funding would be allocated among the Interior Department's National Park Service, Fish and Wildlife Service and Bureau of Land Management, and the Agriculture Department's Forest Service. A detailed proposal describing the allocation of funds between agencies and the specific areas proposed for acquisition will be submitted to Congress shortly.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	206	206	206	206	206
Outlays	240	244	204	204	206

c. Developing Offshore Oil and Gas While Protecting the Environment

OVERVIEW

The Administration believes that oil and gas development of America's offshore areas is necessary to ensure a reliable supply of energy and provide for the Nation's economic and national security. However, drilling will be permitted only in an environmentally sound manner. Past experience in Federal OCS leasing has shown the Nation can both produce oil and gas and protect the environment.

The Federal Outer Continental Shelf (OCS) oil and gas program, covering an area starting 3–9 miles offshore to a distance of about 200 miles, is responsible for 12 percent of the Nation's oil production and 26 percent of gas production. Thirty-one million acres are currently under lease, generating $2.7 billion in 1989 Federal receipts from both lease sales and royalties. The program, administered by the Department of the Interior at a cost of $90 million yearly, has leased 55 million acres for exploration and development over the past 35 years, generating over $90 billion in Federal receipts, with an excellent safety and environmental record.

"I do believe that development of our most promising oil and gas reserves is called for, because continued domestic production of oil and gas is essential to the National security of the United States.

"At the same time, I oppose drilling in those environmentally sensitive areas where the risk of damage is too great. I have said I would delay any drilling under lease sale #91 in Northern California pending resolution of these environmental concerns.

"And let me add today that we will take a very close look at those environmentally sensitive areas which would be available for development under lease sale #95. . . ."

George Bush

PRINCIPLES

- The President is committed to continued OCS oil and gas development in an environmentally sound manner.
- There are legitimate differences of opinion concerning the environmental effects of OCS leasing in certain areas, particularly sale #91 in the frontier area off Northern California, and sale #116 in the environmentally sensitive area off Southern Florida near Everglades National Park. In addition, there are environmental concerns regarding sale #95 off Southern California. All of these sales are proposed for 1990 leasing in Interior's current OCS lease schedule.

POLICIES

The President proposes to proceed with prudent, environmentally sound OCS leasing and development. Consistent with this objective, he will direct that a joint Interior, Department of Energy, and National Academy of Sciences task force be established to review and resolve environmental concerns over adverse impacts of sales in the three environmentally sensitive areas discussed above. A task force report will be presented to the President by January 1, 1990.

The President will further direct that:

- Leasing in sale area #91 off Northern California be indefinitely postponed until the task force resolves the concerns over the sale's environmental impacts.
- Similarly, leasing in sale area #116 off Southern Florida, south of 26 degrees north latitude, be indefinitely postponed pending satisfactory resolution of environmental concerns.
- Leasing in sale area #95 off Southern California be delayed pending review by the task force. Should the task force report indicate significant adverse environmental effects that have not been previously identified, a decision will be made to delay further or cancel the sale.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Receipts provided to the Federal Government by OCS Leasing Activities.....	2,655	3,253	3,283	3,380	3,320

d. Speeding Hazardous Waste Cleanup

OVERVIEW

The Administration will reinvigorate the Superfund hazardous waste program, moving ahead forcefully with cleanups and cracking down hard on those responsible for illegal dumping.

America needs an aggressive hazardous waste program. The President's personal commitment is clear. Improving Superfund enforcement will be one of EPA's top priorities.

"There is hardly a community in the land that is not afflicted with the problem of toxic waste. We have put major funding into the Superfund program, yet it is seriously lagging. Any further delay where there is a threat to public health is simply intolerable. We must speed up the cleanup of toxic waste dumps."

George Bush

PRINCIPLES

- Those who are responsible for the dumping should be responsible for the cleanup. Polluters should pay.
- Voluntary settlements will be encouraged rather than impeded because they are the most promising, cheapest, and quickest solution to the cleanup problem.
- The Administration will use every tool at its disposal to quicken the pace of cleanup. Polluters will not be allowed to benefit from delay.
- Citizens should feel confident that once a hazardous site is identified, actions will be taken to protect their health and the environment.

POLICIES

Superfund has the resources, but it can be reformed to move faster and be more efficient. Specifically, the President has directed EPA to:

- Use its judicial enforcement authorities to collect triple damages from polluters unwilling to clean up their wastes.
- Pursue more cost recovery cases sooner in order to let polluters know they can't escape paying their fair share and will not benefit from delay.

- Use its mixed funding authority (combining Federal and non-Federal resources) more frequently so that voluntary settlers not responsible for an entire site can undertake cleanup sooner.
- Provide an incentive for early action by structuring settlements to penalize late settlers who drag their feet.
- Use its emergency cleanup authority more often to quickly address serious threats to human health and the environment, such as emptying contaminated lagoons and removing barrels of hazardous waste.
- Take steps to cut the length of time spent in planning cleanups. The current 3-year process contains too much red tape and can be streamlined.
- Issue the major regulation implementing Superfund in final form this year. Promulgation of this regulation is late, having been released for comment two years after legislation was enacted.

e. Fighting Ocean Pollution

OVERVIEW

The Administration is committed to clean oceans. It is ready to protect the oceans from further abuse by irresponsible polluters. The need for such action was made abundantly clear in 1988. The oceans can and do support a remarkable range of human activites but America's oceans, estuaries and coastlines can only take so much. Along the Nation's coastlines, the legacy of decades of short-sighted dumping policies is becoming evident.

Last summer's pollution and related beach closures, shellfish consumption bans, dolphin deaths, and red tides helped to focus attention on the issues of coastal development and pollution. The public was rightfully outraged by medical waste washing up on ocean beaches and justifiably concerned about sewage sludge being dumped off our coasts. These abuses of the oceans must end and will end.

> *"Pollution is uniquely personal—for when we think about pollution, we think first of man's insults to the places we love: plastic 6-pack rings floating in the ocean, trash washing up on the shore."*
>
> George Bush

PRINCIPLES

- The President is committed to halting ocean pollution.
- The Administration will ensure that Federal legislation addressing ocean pollution is fully implemented and vigorously enforced.
- The Administration will throw the book at those polluters found dumping illegally.
- The President is committed to ensuring that all Federal agencies comply with coastal pollution prevention requirements.
- Alternatives to ocean disposal of waste should be identified.

- Success in addressing the many sources of coastal pollution will require the cooperation of individual citizens, private land owners, developers, farmers, and all levels of government.

POLICIES

To initiate an era of coastal awareness, the President will:

- Direct EPA to negotiate quickly compliance agreements with existing dumpers to end ocean dumping by the end of 1991. EPA will issue no new permits for the ocean dumping of sewage sludge or industrial waste.
- Instruct the FBI and EPA to pursue criminal enforcement actions against illegal dumpers of medical wastes and EPA to issue major fines against ocean discharge permit violators.
- Direct EPA to expedite promulgation of regulations establishing a pilot medical waste tracking program in the Great Lakes and Northeastern states so that the program is in place before the 1989 beach season.
- Work closely with the states to ensure maximum participation in the demonstration tracking program and encourage the voluntary participation of states in other parts of the country.
- Propose legislation to strengthen the Ocean Dumping Act by authorizing felony level criminal sanctions, judicial assessment of civil penalties against medical waste and other dumpers, and issuance of administrative orders requiring compliance.
- Direct the Coast Guard to take a leadership role in upholding and enforcing provisions of international ocean pollution treaties and conventions which restrict shipboard disposal of garbage and persistent marine debris.
- Work with the states to continue to enforce sewage treatment deadlines provided for in the Clean Water Act. Unless specifically exempted, all municipal sewage *must* be treated at the secondary level.

f. Preserving Our Wetlands

OVERVIEW

America must better protect its wetlands, which comprise bogs, marshes, swamps, and other similar areas that produce numerous benefits for society. Wetlands provide habitat for many species of fish and wildlife. They help to maintain water quality by filtering out pollutants and sediments. They serve to control erosion by trapping soil washed from nearby farmlands. They play an important role in reducing flooding problems by temporarily storing large quantities of water and by slowing the velocity of flood waters. Finally, they are sources of recreation, timber, and other natural products for commercial use.

Approximately 215 million acres of wetlands existed in the contiguous United States at the time of the Nation's settlement. By the mid-1980s, about 95 million acres remained, 44 percent of the original wetlands acreage. Annual wetlands losses average about 450,000 acres, an area about half the size of Rhode Island.

"We must bring the private and public sectors together, at the local and State levels, to find ways to conserve wetlands.

"I believe this should be our national goal—no net loss of wetlands. We can't afford to lose the half of America's wetlands that still remains."

George Bush

PRINCIPLES

- The President is committed to the preservation of the Nation's remaining wetlands, working with the States to slow and eventually stop the loss.
- Achievement of the goal of no net loss of wetlands requires strengthening existing Federal programs and regulations that protect, maintain, and restore wetlands.
- The Federal Government also needs a coordinated wetlands policy—each of the agencies involved with wetlands should work in concert to achieve the same goal. Too often, agencies work at cross purposes, with different standards and different goals.
- The Nation must look beyond Federal programs and regulations to encourage wetlands protection. Public understanding of the value of wetlands should be enhanced, and support provided for non-regulatory programs that encourage private, State, and local actions to conserve wetlands.

POLICIES

The President will immediately establish a wetlands inter-agency task force under the Domestic Policy Council. The task force will recommend ways to revise and strengthen the current Presidential executive order on wetlands protection. This will include establishment of no net loss as a national goal and clear direction to Federal agencies to work toward this goal to the extent feasible under current law. The task force will also coordinate and assess implementation of the no-net-loss goal by Federal, State, and local governments and the private sector.

Other wetlands proposals include:

- Redirection or expansion of Federal R&D to maximize efforts aimed at effective wetlands creation, restoration and maintenance.
- Review of options for improving management of federally owned wetlands through privatization whereby private, non-profit conservation and other groups would operate and maintain Federal properties under long-term leases.

The Bush Administration will also vigorously implement and enforce laws enacted over the last several years that contain special provisions designed to conserve wetlands:

- The 1985 Food Security Act, with several new regulatory and non-regulatory conservation provisions, especially the "swampbuster" provision by which Department of Agriculture program benefit payments are prohibited to farmers who plant a program crop in wetlands after 1985.
- The 1986 Water Resources Development Act, which requires mitigation concurrent with Army Corps of Engineers water project construction, and increased cost sharing by Corps of Engineers water project beneficiaries; both provisions should reduce the scope of projects and their adverse environmental impacts—including wetlands destruction.

- **The 1986 Tax Reform Act, which eliminated provisions of the Federal tax code that encouraged conversion of wetlands to farmland.**
- **The 1982 Coastal Barrier Resources Act, which is specifically designed to restrict federally subsidized development of undeveloped coastal barriers and associated wetlands along the Atlantic and Gulf Coasts.**

g. Enhancing Water Quality

OVERVIEW

Groundwater and surface water contamination from the normal use of pesticides and fertilizers is a growing concern throughout the country. Both public and private efforts are required to promote the adoption of environmentally sensitive farm production practices and to develop safer chemical and biological pest controls.

> *"The protection of the environment and the conservation and wise management of our natural resources must have a high priority on our national agenda. But given sound research, innovative technology, hard work, sufficient public and private funds, and—most important of all—the necessary political will, we can achieve and maintain the environment that protects the public health and enhances the quality of life for us all."*
>
> George Bush

PRINCIPLES

- The President is committed to protecting the Nation's groundwater resources from contamination by fertilizers and pesticides without jeopardizing the economic vitality of U.S. agriculture.
- Water quality programs must accommodate both the immediate need to halt contamination and the future need to alter fundamental farm production practices.
- Ultimately farmers must be responsible for changing production practices to avoid contaminating ground and surface waters. Federal and state resources can provide valuable information and technical assistance to producers so that environmentally sensitive techniques can be implemented at minimum cost.

POLICIES

This initiative increases existing funding for coordinated water quality programs in the Departments of Agriculture, Commerce, and Interior and the Environmental Protection Agency by $64 million. Building on an interagency base of $226 million, the 1990 programs will address critical needs in water quality assessment, research, and public education. The Department of Agriculture will spend an additional $47 million, mostly on the development and demonstration of farming practices that avoid water quality degradation. Commerce's National Oceanic and Atmospheric Administration will monitor the effects of agricultural run-off on coastal and inland waterways. The Environmental Protection Agency, working with the relevant state and Federal agricultural agencies, will devote an additional $10 million to improving farmers' understanding of their obligations as stewards of water quality. The U.S. Geological Survey will add funds to its ongoing $57 million effort to measure accurately and monitor surface and groundwater quality. The $64 million initiative represents a permanent increase to base funding for water quality programs. In coming years, as more is learned about the causes and

consequences of water quality degradation, program emphasis will shift to ensure adoption and use of environmentally sensitive farming practices.

PROPOSED CHANGE
(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	226	290	+64	+28.3
Outlays	226	290	+64	+28.3

h. Reducing the Growing Volume of Waste

OVERVIEW

America as a nation is filling landfills faster than it can site new ones. Per capita waste production in the United States is greater than in any country in the world. Collectively, this nation produces 160 million tons of garbage a year, and one-half of the municipal landfills in this country will be full by the mid-1990s. The waste problem is not going away. It can no longer be neglected. America can do better.

This country must make every effort to stem the rising tide of garbage and industrial waste through a more aggressive use of waste minimization and recycling practices. In many cases it is in the economic self-interest of industry to avoid polluting by recycling wastes, by minimizing wastes at the source, or by changing to a non-polluting process. The technology is there; what is needed now is the will.

> *"There is, after all, much that we can do ourselves, individually, to benefit the environment: We can reduce our municipal solid waste problem with a greater commitment to recycling. We can improve the outdoor experience simply by picking up the trash we see and not leaving any of our own behind."*
>
> George Bush

PRINCIPLES

- Reducing waste at the source is the best way to deal with the problem.
- The President believes that EPA's current national goal of 25 percent waste reduction, through recycling and reducing wastes at the source, can be exceeded.
- Waste minimization must start at home and in the local communities. Citizens must be willing to reduce their garbage and separate their wastes for recycling purposes, or else be willing to accept nearby incinerators or landfills.
- Effective waste reduction techniques both in industry and in local communities should be shared.

POLICIES

Additional EPA research funds will be used to expand the demonstration of promising pollution prevention and waste minimization technologies.

A national database will be developed on effective applications of waste reduction and recycling techniques currently implemented in private industry and local communities. This information will be made available to industry and state and local governments via a national clearinghouse.

A new multi-media office within EPA will be used to institutionalize the source reduction approach across all Agency programs as a preferred alternative to pollution controls.

EPA will encourage industry and consumers to increase their use of biodegradable and recyclable products.

EPA will vigorously enforce environmental laws restricting waste disposal in order to encourage industry to look for ways to produce less waste. Imposition of the full cost of waste will in turn drive industry to be less wasteful.

i. Fostering International Cooperation on the Environment

OVERVIEW

Changes in the Earth's climate as a result of human activity could have widespread effects. An unwelcome byproduct of a number of human activities is the creation of "greenhouse gases," which include carbon dioxide, chlorofluorocarbons (CFCs), and methane. An overabundance of greenhouse gas emissions may contribute to global climate change.

The Administration is committed to developing a better understanding of the processes that influence global climate and to facing the possible adverse consequences that significant climatic changes may entail. The present understanding of complex Earth system processes is rudimentary and substantial research will be necessary before we can begin to make reliable predictions of global climate change. Nevertheless, the Nation should further investigate appropriate actions that could provide insurance against the most extreme potential consequences of global climate change. Foremost among these steps will be U.S. leadership in seeking increased international involvement in addressing these issues.

> *"The problem, however, is international in scope; unilateral action by the United States alone will not solve it. In fact, some say the problem is just too big to be solved. That the world is growing too much and too fast.*
>
> *"I say they are wrong. Those who think we're powerless to do anything about the 'greenhouse effect' are forgetting about the 'White House effect.' As President, I intend to do something about it."*
>
> George Bush

PRINCIPLES

- International cooperation is essential in addressing global climate issues. Action must be global in scope to be successful. U.S. leadership is needed to focus attention on global environmental issues at the highest levels of government worldwide.

- The U.S. should actively work to ensure that current international environmental agreements are implemented and enforced.
- Domestically, the global climate change policy responsibilities of Federal agencies and departments should be clearly defined and adequate coordination mechanisms established.
- Federal agency research efforts to understand and ultimately to predict global change must be strengthened in order to assure that any needed response strategies are sound and effective. To date, a federal interagency group, the Committee on Earth Sciences has effectively coordinated research activities, and developed a research strategy that accompanies the 1990 budget.
- While research is reducing scientific uncertainties, the U.S. should focus on the consideration of short-term actions that may affect climate change and that can be justified for other reasons.

POLICIES

President Bush will convene a high level international conference on environment.

- The agenda will include global warming, saving our oceans, and preventing loss of tropical forests.
- Avenues of cooperation will be identified to assure that both the developed and developing nations collaborate and share in the decisions, the costs, and the benefits associated with the prevention of global climate change.

The Administration will work to achieve the worldwide ratification of last year's historic accord to cut by 50 percent the production of chlorofluorocarbons (CFCs) which contribute to depletion of the ozone layer and the greenhouse effect.

The President will direct the Treasury Department to promote environmental considerations as a factor in lending decisions of multilateral development banks in order to avoid funding projects that needlessly contribute to deforestation, desertification and other environmental damage.

The 1990 budget increases bilateral aid in support of natural resource programs in developing countries to better manage, preserve, and protect the environment.

President Bush will ensure that domestic activities buttress our international agreements and initiatives:

- The President will issue an Executive Order on global climate change setting out the responsibilities of Federal agencies and departments as well as establishing effective coordination mechanisms.
- The President's budget also includes a $191 million (43 percent increase over 1989) U.S. Global Change Research Program that addresses the scientific uncertainties surrounding global change in order to allow future predictions of potential greenhouse effects.
- The Administration will charge market value for the scarce rights to produce CFCs in order to capture the value of those rights for the benefit of the public and remove the current disincentive for industry to develop safe, but less profitable, CFC substitutes.

OVERVIEW

The Adminstration is committed to addressing forcefully the tragedy of homelessness through public and private action.

Homelessness is an individual tragedy, and sometimes a family tragedy—a tragedy whose causes vary widely. This is a problem that traces back 50 years, according to a National Governors' Association Task Force. In the long run, no solution to homelessness is possible without a strong economy—an economy that produces jobs. Jobs help families afford housing; jobs build self-respect; and jobs increase security. But strong job growth alone clearly does not solve the problem of homelessness.

The homeless face difficult and sometimes seemingly overwhelming obstacles in getting back on their feet. They are both poor and without shelter over their heads. The extent of homelessness has been subject to much debate, but research suggests that the number ranges from 300,000 to 600,000 on any given night. While these estimates are less than the millions claimed by some, they are substantial. A concerted national public-private partnership is needed to reduce significantly the size of this population and, ultimately, to end homelessness.

> *"My friends, we have work to do. There are the homeless, lost and roaming."*
>
> George Bush

PRINCIPLES

- The problem of homelessness has several different components—the mentally ill, alcohol and drug abusers, unemployed individuals and families with children. Solutions are not the same in all cases.
- The President has pledged to fully fund the programs for the homeless in the Stewart B. McKinney Homeless Assistance Act.
- The President is committed to helping end the suffering of all the homeless, especially the most vulnerable among them—families with children and the mentally ill.
- Fully funding the McKinney Act is not enough. The President is proposing a new initative for the homeless.
- The Federal Government cannot do the job alone—non-profit organizations, together with State and local governments, are also key actors.
- Public-private partnerships will make maximum use of, and further expand, volunteer efforts in thousands of communities to reach out to the homeless.

POLICIES

The President proposes to fully fund the McKinney Act and to fund a new initiative to help the homeless regain their self respect, achieve economic self-sufficiency, and become productive members of the community.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	591	1,007	+416	+70
Outlays	500	644	+144	+29

As the President pledged, the McKinney Act will be funded up to the authorized level of $746 million, including $676 million of discretionary funding for programs providing emergency food and shelter, transitional and permanent housing, as well as health, substance abuse, educational, training and other needed services. These funds will also help to support community-based mental health clinics. The non-discretionary portion ($70 million) funds Food Stamp provisions aimed at helping the homeless.

In addition, the President proposes a new $50 million initiative designed to reduce homelessness. It will build on local private-public partnerships and will tap the talent and resources of thousands of volunteers and community organizations committed to helping the homeless. It is designed to:

- help homeless families and children move out of welfare hotels and into transitional or permanent housing;
- provide a coordinated package of services and shelter for the homeless mentally ill; and
- make available resources on a flexible basis for communities to meet specific needs of homeless people in their areas.

This initiative will allow States and localities, with the non-profit sector, to identify those homeless groups most in need in a local area and to put together the best package of services for them. These proposed projects will be selected on a competitive basis and will require matching funds.

Included in the President's budget are other programs, not part of the McKinney Act, specifically aimed at helping the homeless. These include USDA funds for soup kitchens, DOD efforts to provide blankets and cots and shelters, and HUD efforts to provide funds for construction of permanent housing specifically to meet the needs of the mentally ill and elderly homeless.

In all, funds in the 1990 budget for the homeless will total over $1 billion. Additional Federal funds also aid the homeless but can not be separately identified. These include entitlement programs (e.g., AFDC, VA benefits, Social Security) and large block grants to States and local governments that are used in part to help the homeless.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	591	1,007	982	950	955
Outlays	500	644	767	800	898

3. ENHANCING PARENTAL CHOICE IN CHILD CARE

SUMMARY

Child care is one of the most important issues facing the Nation. Business, labor, nonprofit organizations, and State and local governments all can play important roles in helping families meet the challenges of a changing America. So, too, can the Federal Government.

President Bush is dedicated to a bold new approach to child care which empowers parents, especially low-income parents, to make the critical decisions about their children's care. Meeting the competing demands of work and family life—often a trying task under the best of circumstances—can be especially difficult for low-income families with young children.

Federal child care policies should enable families—not the Government—to determine their child care arrangements for themselves. In this way, children, their parents and the Nation as a whole will benefit. The children will benefit from being cared for in the way that their parents believe best suits their needs; and parents, having chosen the most appropriate child care arrangement for the family, will lead more fulfilling lives. The result for the Nation will be a more productive workforce and a generation of children raised in an environment that reflects strong family values.

> *"My philosophy with respect to child care is to put choice in the hands of parents, and not in the hands of the State. . . . I will build a policy around parental choice. Particularly we must find a way to put a greater range of choices in the hands of low-income parents—because they face the greatest difficulty in meeting the demands of work and family."*
>
> George Bush

The Federal Government currently provides over $5.7 billion in support for child care and an additional $1.2 billion for the Head Start early childhood development program. The largest sources of Federal support for child care now are the Dependent Care Tax Credit, the Title XX Social Services Block Grant, and the Child Care Food program. Significant additional funding for child care is also provided under the recently enacted welfare reform, the Family Support Act. Under that Act, welfare recipients will be provided with child care while they participate in employment and training activities, and those who leave the welfare rolls to work will be provided with 12 months of free or low cost child care to ease the transition from welfare to work. The budget reflects current law funding for Title XX, the Child Care Food program, and the child care components of the Family Support Act.

The President's budget also reflects four child care initiatives: a new refundable Child Tax Credit of up to $1,000 per child under age four in low-income working families, a proposal to make the current Child and Dependent Care Tax Credit refundable, a $250 million expansion in Head Start, and a study of liability insurance by the Department of Labor. These initiatives reflect the President's commitment to enhancing parental choice in child care and the special obligation to first provide additional assistance to families most in need. They are described in the pages that follow.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Tax Credits:				
Revenue Effect	—	–5	–5	n.a.
Outlays*	—	182	182	n.a.
Head Start:				
Budget Authority	1,235	1,485	+250	+20.2
Outlays	1,202	1,351	+149	+12.4

* The outlays result from the refundable feature of the tax credit.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Tax Credits:					
Revenue Effect	—	–5	–46	–48	–52
Outlays*	—	182	1,847	2,163	2,430
Head Start:					
Budget Authority	1,235	1,485	1,534	1,577	1,613
Outlays	1,202	1,351	1,485	1,546	1,589

* The outlays result from the refundable feature of the tax credit.

a. Expanding Child Care Assistance to Low-Income Families Through Tax Code Changes

OVERVIEW

There is no such thing as "one size fits all" child care. In balancing the competing demands of work and family life, parents need choices which allow them to make the child care arrangements that best meet their families' needs.

Low-income families can be especially hard-pressed in making the child care arrangements they prefer. The President is committed to ensuring that these families benefit first from increased Federal support for child care.

"Parents work during the day and at night, swing shifts and part time. Some parents want caregivers to be relatives or neighbors or at school or at church. Or they want only after school care or care for special children. They want caregivers to share their values. . . . I will build a policy around parental choice."

George Bush

PRINCIPLES

- The President is committed to helping families meet their child care needs.
- Additional assistance should first be provided to low-income families with young children. New initiatives will help these families obtain the care that they believe best suits their children's needs.
- The President believes that Federal assistance should not discriminate among different child care arrangements. Care by the parents themselves, by relatives or neighbors, at religious institutions, at family day care homes, and at child care centers should all be accommodated.
- Federal policy should broaden rather than limit child care alternatives for parents and children by avoiding Federal standards that restrict parental choice or raise costs. Parents should continue to have the responsibility and prerogative to judge which child care arrangements best serve their children's needs.

POLICIES

The President proposes a new tax credit of up to $1,000 for each child under age four in low-income working families. This credit, available to families in which at least one parent works, would be provided to very low-income families in tax year 1990 and expanded to include additional families in subsequent years. For each child under the age of four, families could receive a credit equal to 14 percent of wages, with a maximum credit equal to $1,000 per child. In 1990, the credit would be phased out between $8,000 and $13,000 in income. This phase-out range would increase to between $15,000 and $20,000 by 1994.

The credit would be refundable. That is, if the credit due exceeded a family's Federal income tax liability, the difference would be paid to the family. Families would have the option of receiving the refund in advance through a payment added to their paycheck.

The existing Dependent Care Tax Credit also would be modified. Under current law, parents are allowed a credit for the child care costs incurred in order to obtain or maintain employment. The credit currently applies only to families with sufficient income to pay Federal income taxes. This credit would be made refundable. Families that meet eligibility criteria for both the Dependent Care Tax Credit and the new Child Credit could claim whichever credit best suits their needs and circumstances for each child.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Revenue Effect	n.a.	–5	–46	–48	–52
Outlays	n.a.	182	1,847	2,163	2,430

b. Expanding Head Start

OVERVIEW

Head Start helps poor families meet their child care needs, but it also does much more. Through a comprehensive approach that provides educational, medical, nutritional, and social

services to children at risk of falling behind, it gives poor children a better start in life. With its emphasis on parental and community involvement, Head Start also benefits poor parents and affords concerned Americans the opportunity to devote time and effort to improving the lives of some of our most vulnerable citizens. The President is committed to expanding enrollment in Head Start.

"Give any American kid an equal place at the starting line, and just watch what that kid can do. But too many kids are denied that equal chance, particularly if they are black and poor. Head Start helps kids get that equal place at the starting line. It's a Federal program that works. But it doesn't reach all the kids it should."

George Bush

PRINCIPLES

- Head Start should serve more poor, four year old children.
- Increasing enrollment in Head Start not only expands the range of child care choices available to poor families, it represents an investment by Government, parents, and concerned citizens in our Nation's most valuable asset: our children.
- In a period of constrained resources, new Federal assistance must first be provided to those most in need. The poor children and families eligible to participate in Head Start are among the most needy.

POLICIES

The President's budget provides a $250 million increase for Head Start funding in 1990.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	1,235	1,485	+250	+20.2
Outlays	1,202	1,351	+149	+12.4

These additional funds would be used to expand enrollment of poor, four year old children in Head Start. Up to 95,000 additional four year olds would participate in the program, benefiting from Head Start's comprehensive activities and increasing by a third the number of poor children in this age group served.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	1,235	1,485	1,534	1,577	1,613
Outlays	1,202	1,351	1,485	1,546	1,589

c. Examining Barriers to Liability Insurance

OVERVIEW

Employers in substantial numbers are finding that it is simply good business practice to establish policies that help their employees meet their child care responsibilities. A recent Department of Labor survey indicates that almost two-thirds of workplaces with 10 or more employees help employees with child care. Flexible work schedules and leave policies, as well as counseling, information and referral services, are the most common forms of assistance. Employer-sponsored child care on or near the work site is relatively rare, offered by only a little over two percent. There is concern that lack of access to liability insurance may be deterring some employers from offering this form of care.

"I would encourage employer-sponsored child care, flexible work schedules and benefit plans which allow workers to choose the benefits they need. Employers must demonstrate more flexibility and sensitivity to family needs.

"Employers have a major role in helping parents find needed child care but I do not believe in give-aways of taxpayer dollars to get business to recognize what it already knows: that it must provide assistance for more and better child care. Workers demand it; productivity demands it; a business' bottom line demands it."

George Bush

PRINCIPLES

- Insurance regulation is predominantly a State responsibility, but federally sponsored research can inform State policies and practices.
- If market barriers are preventing employers from obtaining liability insurance so they can provide child care at or near the worksite, strategies should be developed to facilitate their removal.

POLICIES

The President has directed the Secretary of Labor to conduct a study to determine whether market barriers or failures are preventing employers from obtaining liability insurance necessary to provide child care on or near their employees' worksites.

The study will examine commercial liability insurance, self-insurance, State-facilitated market assistance plans (centralized insurance information systems in which insurers volun-

tarily participate), joint underwriting agreements (under which States require insurers to participate in providing insurance), and other arrangements relevant to this issue.

The Secretary will develop a timetable for the study which allows it to be completed no later than the end of this year.

4. INCREASING ADOPTION

OVERVIEW

Too often, the adoption process is complicated and discouraging for parents. Over two million couples would like to adopt, yet in 1987, only an estimated 60,000 children were adopted. Many of these children available for adoption are special needs children in foster care. This Administration will look for ways to make adopting easier for loving, capable families.

Federal incentives will encourage adoption, including adoption of children who are older or handicapped. For pregnant teenagers who might consider abortion, the Administration firmly believes that adoption, not abortion, is the course to pursue. The Administration will also work with States to review all regulations and laws that may currently discourage the adoption of children.

The Administration recognizes the emotional and financial commitment required of families adopting children with special needs. To reduce the initial personal financial commitment required to adopt such children, the Administration proposes a tax deduction for nonrecurring adoption costs that are not otherwise reimbursed up to a maximum subsidized cost of $3,000.

> *"My friends, we have work to do. . . . There are young women to be helped who are about to become mothers of children they can't care for and might not love. They need our care, our guidance, and our education, though we bless them for choosing life."*
>
> George Bush

PRINCIPLES

- The President believes children, and how they are cared for, reflect our values as a nation and as a people.
- Children that can no longer live with their biological parents should be placed without lengthy stays in foster care, with the ultimate goal of adoption.
- Pregnant teenagers should have the option of adoption for their babies.
- The President seeks to remove barriers to adoption, to help ensure that all children have an opportunity to grow up in a loving family and a safe and nurturing home environment.

POLICIES

The President's 1990 request for adoption totals $138 million, including support for Adoption Assistance, Adolescent Family Life, Adoption Opportunities, and Social Security benefits.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority*	128	138	+10	+7.8
Outlays	124	141	+17	+13.7

* Note: Funding totals include Adoption Assistance, Adolescent Family Life, Adoption Opportunities and Social Security benefits.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Deduction for Adopting Special Needs Children	n.a.	–0.5	–0.5	n.a.

To assist families adopting special needs children, reimbursement for up to $2,000 in nonrecurring adoption costs is currently available through Adoption Assistance. The cost of reimbursing families for these nonrecurring expenses is shared equally between Federal and State governments. To complement this assistance, the Administration proposes to restore and double the Federal income tax deduction for adoption of special needs children. Under the proposal, a Federal tax deduction of up to $3,000 would be allowed to cover adoption costs that are not otherwise reimbursed. Examples of deductible expenses would include legal fees, social services, and transportation costs required for the adoption.

The President will ensure continuation of Adolescent Family Life (AFL) demonstration grants, which have produced nearly 100 new and innovative approaches to addressing the problem of adolescent pregnancy. The Administration recognizes the importance of promoting the adoption option for pregnant adolescents.

The AFL program supports multi-year grants to test new and innovative approaches for addressing the problems of teenage pregnancy, including promotion of adoption, and disseminates findings from these projects for use by local communities and private foundations.

The Administration also supports swift implementation of the recently promulgated rule that establishes the basis for reimbursing families adopting special needs children for the nonrecurring expenses of adoption. Parents adopting special needs children should receive without delay benefits and assistance for which they are eligible.

The President believes that foster children eligible for adoption should not be left to languish in non-family settings any longer than necessary, especially in the case of special needs children. The Administration supports continuation of Federal financial participation in adoption assistance payments to States which assist families adopting special needs children.

The President proposes continuation of Adoption Opportunities Grants that facilitate the elimination of barriers to adoption (e.g., laws and regulations that hamper interstate adoptions) and help to provide permanent home environments for special needs children.

The President also seeks a revision to the Social Security Act to treat biological and adopted children equally when their parents are disabled or retired. A worker's biological children born after the establishment of a worker's entitlement to Social Security benefits automatically become eligible for benefits at the time of birth. Currently, children adopted after entitlement is established must meet a certain dependency test, including receiving at least 50 percent of their support from the adopting Social Security recipient prior to entitlement or a period of disability. This process may cause adopted children to wait a year or more to receive the same benefits a parent's biological child would receive immediately. President Bush supports legislation to remove the special dependency requirement for children adopted after a worker's onset of disability or entitlement to retirement benefits. This change would remove a possible financial disincentive for Social Security beneficiaries to adopt children.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	128	138	152	164	173
Outlays	124	141	162	181	193

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Deduction for Adopting Special Needs Children	n.a.	–0.5	–3	–3	–3

5. ENGAGING YOUTH IN SERVICE—YES

OVERVIEW

The President is convinced that many national problems can be reduced by substantially increasing the involvement of young Americans in voluntary service.

The President believes it is important to foster a life-long spirit of service.

> *"I am speaking of a new engagement in the lives of others—a new activism, hands-on and involved, that gets the job done. We must bring in the generations, harnessing the unused talent of the elderly and the unfocused energy of the young. For not only leadership is passed from generation to generation, but so is stewardship."*
>
> George Bush

Therefore, the President will propose a national Youth Entering Service initiative to be administered by a public-private foundation entitled the YES to America Foundation. The YES to America Foundation will help channel the energy and creativity of young people into the many successful community-based organizations and programs at work in America.

PRINCIPLES

- The President will ask all young Americans to participate in YES.
- YES must involve young people in projects that make a measurable difference.
- YES is a voluntary program in which participants will freely provide service to assist others.
- The projects undertaken through the YES program will reflect the creativity in problem-solving and the diversity in approaches that have characterized the American way of life.

POLICIES

Congress will be asked to authorize and appropriate $25 million a year for four years to endow the YES to America Foundation.

The Foundation will be chaired by the President. He will appoint a national volunteer Board of Directors composed of outstanding leaders from government, the private sector, and voluntary organizations.

The Board will develop the criteria for matching funds, the application process, and plans for community and State direction. Federal funds will match private funds for informational, promotional, organizational and administrative expenses during the pilot phase. Following the pilot phase, funds will be employed to initiate the National YES to America program.

Funds will be administered by the YES Foundation. The President's Office of National Service will direct the work of the Foundation.

YES will work in coordination with existing public and private social agencies. For example, YES will study the applicability as models of two programs operated by ACTION: the Student Community Service Program, and the Literacy Corps.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	—	25	25	25	25
Outlays	—	21	25	25	25

6. RESPONDING TO HIV/AIDS

OVERVIEW

Solving the problem of Human Immunodeficiency Virus (HIV, the infection which causes AIDS) is the highest public health priority of the Bush Administration.

Basic research will help to solve HIV mysteries, and applied research will lead to new treatments. Although focused on HIV, this research will also shed light on other diseases.

Education, testing, and counseling are used to help individuals reduce the risk of HIV transmission. Fortunately, when individuals reduce their risk for HIV, they also protect themselves from other sexually transmitted diseases and from the horrors of drug abuse.

> *"We must wage an all-out war against the disease. Let me repeat: an all-out war against the disease—not against the people. Not against the victims of AIDS, but an all-out war against the disease itself."*
>
> George Bush

PRINCIPLES

- Prevention and research are the primary tools for combatting the disease. Resources must be committed to both.
- Efforts against HIV are directed towards the disease, not against the people afflicted with it.
- Federal treatment programs are available to assist the needy.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	1,287	1,600	+313	+24
Outlays	1,217	1,377	+160	+13

POLICIES

President Bush will commit the necessary resources to meet the Nation's concern about HIV. Federal agencies are expected to devote over $2.8 billion to HIV in 1990, $670 million

more than the 1989 effort. The President proposes $1.6 billion for Public Health Service (PHS) HIV activities, which is $313 million or 24 percent over 1989 funding levels.

The National HIV Program will be established in PHS to coordinate and advance HIV activities. Spread among 23 separate PHS agencies, HIV funds are vulnerable to bureaucratic competition and rivalries. This focus will enhance the targetting of funds towards high priority areas and promising new HIV research and prevention efforts as they emerge.

Executive Branch agencies are implementing the ten-point plan against HIV issued last August based on the recommendations of the Presidential HIV Commission.

Federal health care services, including Medicaid, Medicare, the Indian Health Service and Department of Veterans Affairs health programs, are available for Americans afflicted with HIV infection.

In addition to covering HIV-infected persons under its regular program, Medicaid is developing options to address the special needs of HIV individuals through case management, drug treatment, social services, and expanded home health care. These innovative programs are designed to provide more tailored, cost-effective treatment than would be available under the ordinary delivery system. New program options are also being developed to provide special support services specifically for children up to age 5 who are HIV-infected or addicted to drugs at birth, or who develop AIDS after birth. Several Medicare and Medicaid research projects on HIV are currently underway and proposals for new studies and research are actively being solicited.

As with previous national initiatives, ranging from space exploration to the war on cancer, efforts to combat HIV will yield valuable by-products. HIV research will generate new knowledge which will be useful for fighting other diseases, and HIV prevention efforts will help individuals reduce the risk of contracting other illnesses.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	1,287	1,600	1,760	1,936	2,130
Outlays	1,217	1,377	1,550	1,807	1,987

7. IMPROVING MEDICAID FOR PREGNANT WOMEN, INFANTS, AND CHILDREN

OVERVIEW

The Medicaid program finances health care for the most vulnerable low-income members of our society: the elderly, the disabled, pregnant women, infants, and children. The President will work with the States to reduce infant mortality and to ensure that our children receive the quality health care they need to become healthy, productive citizens.

> *"As a nation, we must give our children a better start in the world* [and] *see that quality health services so critical for improving maternal and infant health will be available to the pregnant women and young children in our nation.*
>
> *"We need to provide special help to those in particular need."*
>
> George Bush

PRINCIPLES

- The President is committed to improving health care for lower income Americans through focusing first on the populations most at risk, young mothers and their babies. Expansions in the Medicaid program that are now being implemented will do much to meet these needs and will be fully funded.
- The most cost-effective means must be used to achieve our goals. Adequate prenatal care and immunization against childhood diseases are both the most effective and least costly means to good health early in life.
- Greater personal responsibility for good health must be fostered. Mothers must be encouraged to seek prenatal care, to avoid the use of cigarettes, alcohol, and drugs, and to obtain good nutrition.
- States and community groups have a vital role in improving child health care and must be given flexibility in using their resources to meet their own specific problems. The Federal Government should continue to provide support through State-administered programs such as Medicaid.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	34,301	37,616	+3,315	+9.7
Outlays	34,301	37,616	+3,315	+9.7

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POLICIES

Funding for the Medicaid program is proposed at the current services level, which includes significant program expansions resulting from recently enacted legislation. The proposal for Medicaid savings in the January budget is withdrawn. The proposed funding will support States' expansions of coverage for: pregnant women and infants up to 185 percent of the poverty level; children up to age eight under the poverty level; 12 months of Medicaid coverage for families who leave AFDC to go to work, thus easing their transition from welfare to work; families in which both parents are unemployed; and other recently authorized expansions.

In addition, the President proposes to raise mandatory Medicaid eligibility for pregnant women and infants to 130 percent of the poverty level, a standard comparable to that used in the Food Stamps program.

The President also proposes to expand Medicaid coverage of immunizations for all children ages 0–5 who are eligible for Food Stamps. All children will be able to receive their immunizations simply by having their parents show the clinic a Food Stamp card. By eliminating the red-tape of the Medicaid application process, parents of eligible children would have improved access to the immunizations necessary to insure the health of their children.

Beyond Medicaid eligibility improvements, the President proposes that the Federal Government lead the States in a coordinated and sustained effort to reduce infant mortality and morbidity. The President proposes $20 million in fiscal years 1990 and 1991 for development grants to States with areas of high infant mortality. Participating States would develop demonstration proposals to address the problems unique to each locale. States would agree to develop coordinated programs with Medicaid, Maternal and Child Health (MCH) grants, and Women, Infants, and Children (WIC) nutrition services as the cornerstones. States would specify how their delivery systems will be organized, how high risk pregnancies will be identified, and which services will be targeted to women at risk. The Federal Government will grant the necessary program waivers for approved State demonstrations.

To offset the cost of these new Presidential initiatives, the Administration proposes to phase out special matching rates for certain categories of administrative expenses. These special match rates were intended to foster the early development of the Medicaid program and are no longer necessary.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	34,301	37,616	41,680	45,777	49,833
Outlays	34,301	37,616	41,680	45,777	49,833

8. PROTECTING SOCIAL INSURANCE AND PROVIDING FOR THOSE IN NEED

OVERVIEW

A comprehensive system of social insurance protection against unemployment, old age, and disability has been created over the last half century, while, more recently, a network of programs designed to help ensure that low-income families and individuals can meet their basic needs has been put in place. The President's budget plan will protect our Nation's social insurance system and will provide for those in need.

> *"Elderly Americans have worked hard to build the American dream that we now enjoy. The government doesn't give them Social Security; they've earned it. As President, I will keep the Social Security system solvent and secure for this generation and future generations."*
>
> George Bush

PRINCIPLES

- The President is committed to maintaining the integrity of the Social Security system, which he has placed off-limits from budget cuts.
- Those in need should be able to count on receiving assistance, and no cuts will be proposed in means-tested entitlement programs.

POLICIES

The President proposes full funding for Social Security, which will serve approximately 39.5 million beneficiaries in 1990, about 650,000 more than in 1989. Social Security recipients will receive a cost-of-living increase, estimated at 3.6 percent, in January of 1990.

Under the President's budget, other social insurance program benefits, including Unemployment Compensation and Veterans Service-Connected Compensation, also are fully funded.

The same is true for means-tested entitlements, including AFDC, SSI, Veterans Nonservice-Connected Pensions, Food Stamps, and Child Nutrition. Significant program expansions resulting from provisions recently enacted into law are reflected in these levels. In 1990, for the first time all States will be required to provide at least six months of AFDC coverage to two-parent families in which the principal wage earner is unemployed (AFDC-UP). In Food Stamps, the basic level of assistance for a family will be increased by more than the increase in inflation between 1989 and 1990.

Additional assistance to low-income families also would be provided through subsidized housing programs administered by the Department of Housing and Urban Development. An additional 109,000 households would be served in 1990, bringing the total number of households assisted to 4.4 million. Similar increases of 109,000 additional subsidies annually are proposed for 1991 through 1994 to assist more and more low-income families.

FUNDING SUMMARY

(In millions of dollars; beneficiaries in thousands)

	1989	1990	1991	1992	1993
Social Insurance:					
Outlays for Benefits	253,288	269,065	285,228	300,750	315,359
Beneficiaries	48,659	49,335	49,773	50,390	50,928
Means-Tested Programs:					
Outlays for Benefits	58,670	60,735	64,852	67,227	69,012
Beneficiaries	81,849	82,530	82,738	83,614	84,369

"Social Insurance" includes Social Security, Disabled Coal Miners, Unemployment Compensation, and Veterans Service-Connected Compensation.

"Means-Tested Programs" includes AFDC, SSI, Food Stamps, Nutrition Assistance for Puerto Rico, Child Nutrition, HUD-subsidized housing, EITC, and Veterans Nonservice-Connected Pensions.

Beneficiary estimates are duplicated counts representing the sum of estimates for individual programs.

E. BALANCING COMPETING CLAIMS

"We will make the hard choices, looking at what we have and perhaps allocating it differently, making our decisions based on honest need and prudent safety."

George Bush

The President has repeatedly emphasized that moderating the growth in Government spending is the best way to bring down the budget deficit and put Government finances on a path toward a balanced budget. The flexible freeze was developed to communicate this basic Presidential message. Because of the growth momentum built-in to many Government programs by previously enacted legislation, moderating the growth in Government spending is not an easy task. The revenues available to Government, although large, are necessarily limited. Therefore, in order to meet the budget targets, hard political choices must be made. A proper balance must be struck between compelling claims on the Federal Treasury. If the Government is to have the capacity to meet the emerging needs of the next decade, it must be willing to reduce or eliminate those programs that have outlived their usefulness.

1. RESTRAINING THE GROWTH IN MANDATORY PROGRAMS

One key to restoring balance between Government spending and revenues is to restrain the rapid growth in certain entitlement and other mandatory programs and trim the budgetary excesses out of others. Modest changes in the structure of these programs can produce significant budget savings in the near term. More importantly, by altering the growth trajectory of program expenditures, such reforms also generate even greater savings in later years. However, in considering reforms, care should be taken not to affect adversely the basic benefits provided to individual recipients.

The President proposes significant changes in certain entitlement programs. The most important of these are changes in the health entitlements; Medicare and Federal employees health benefits. The President also proposes changes in the Guaranteed Student Loan program, Federal Retirement programs, Power Marketing debt repayments, and VA Housing. If these proposals are enacted, they would reduce the growth in Government spending by almost $12 billion in 1990. By 1994 the combined savings from the proposed changes would exceed $20 billion.

MANDATORY PROGRAM REFORMS

(Outlays in billions of dollars)

	1989	1990	Dollar Change
Medicare	84.5	92.5	+8.0
Federal Employees Health Benefits	1.9	1.6	–0.3
Farm Support Payments	13.9	10.7	–3.2
Power Marketing Reforms	–0.6	–1.5	–0.9
Lump-Sum Federal Retirement Benefits	1.6	0.6	–1.0
Other	2.9	2.0	–0.9
Total	104.2	105.9	+1.6

ADDENDUM	
1990 Savings from Current Law:	
Medicare	–5.0
FEHB	–1.2
Farm Support Payments	–1.9
Power Marketing Reforms	–0.9
Lump-Sum Federal Retirement Benefits	–2.1
Other	–0.6
Total	–11.8

Medicare

Medicare is the fastest growing entitlement program in the budget. Since its inception in 1965, Medicare expenditures have more than doubled every seven years. Without further reform, expenditures will continue to soar at double-digit annual rates for the foreseeable future. The President's budget proposes to restrain modestly the growth in Medicare payments to hospitals, physicians and other providers by limiting the increase in payments for services delivered. In addition, reductions in hospital capital-related payments and supplemental payments to teaching hospitals that were incorporated in President Reagan's 1990 budget are reproposed. Finally, premiums paid by the elderly for physician and outpatient health services will be continued at their current level of 25 percent of program costs. If these modest reforms are adopted, the growth in Medicare payments between 1989 and 1990 will be reduced by $5 billion. Nevertheless, they will still grow by $8 billion.

Federal Employees Health Benefits (FEHB)

Like other health care entitlements in the budget, health benefits for Federal employees are growing at an explosive rate. Currently, the FEHB program costs the Government over $1,500 per Federal worker—far in excess of the amount which most private firms pay for their workers' health benefits. Between 1989 and 1990, FEHB payments are projected to increase by almost 20 percent and during the next five years, FEHB expenditures are projected to grow by nearly 75 percent.

As an initial step toward controlling this excessive growth, the President proposes to revise the method used to determine the Federal Government's contribution to individual health plans made on behalf of Federal employees. The current method was established in 1970 and has not been revised since then. The proposed revision would provide Federal workers with greater incentives to choose lower cost health plans that are more suitable to meet their individual medical needs. By providing these incentives, the health care cost to the Government will fall. The President's proposal, which was also included in President Reagan's 1990 budget, will reduce FEHB payments by $318 million in 1990 and by almost $2 billion over the period 1990–1994.

Farm Price and Income Support Payments

The sharp shift from the high-inflation economy of the late 1970's, to the low-inflation economy in the 1980's, produced severe financial problems in the Nation's farm sector. In response to these problems, the Congress enacted a series of legislative initiatives which greatly expanded the scope and generosity of Federal farm programs. As a result, Federal farm and income support payments ballooned; rising from $4 billion in 1981 to over $13 billion in 1989 (and a peak of $29 billion in 1986). Currently, the farm sector is on the rebound; farm incomes have been rising and have now reached record levels. The prospects for continued improvement are good. Farm subsidy payments will decline in 1990 (see Appendix F), but further decline is possible with reform. The provisions of the current law were designed during the height of the farm crisis. It is now time to reform our farm programs and not wait until the current farm bill expires nearly two years hence. The President has charged the Secretary of Agriculture to work with the Congress in developing a specific set of initiatives designed to reduce Federal farm expenditures by $2 billion in 1990. Among the generic options that have been considered are one that would lower target prices or another that would decouple income support payments from farmers' production decisions by reducing the number of acres eligible for income support payments. These and other options will be reviewed in seeking to develop an improved system that is both fair to farmers and sensible in the face of continuing Federal budget constraints.

Federal Lump-Sum Retirement Benefits

For most of the 65 year history of Federal employees retirement programs, Federal retirees received their pensions in the form of monthly payments just as all private pensioners in defined benefit plans do. During the last three years, however, Federal retirees have been allowed to collect a portion of their retirement benefits in a lump-sum. The lump-sum payment averages nearly $30,000. About 85 percent of retirees choose to take their benefits in the form of a lump-sum. The President proposes to return to the traditional method of paying retirement benefits, eliminating the lump-sum option and making the method of payment conform to that of private sector defined benefit plans.

Power Marketing Repayment Reform

The President proposes to reform debt repayment practices at the five Federal Power Marketing Administrations (PMAs) to assure that the billions of dollars the Federal Government has invested in them is repaid in a sound, businesslike way.

The five PMAs—Bonneville, Southeastern, Southwestern, Western, and Alaska—generate and sell six percent of the country's electric power. The PMAs are major Government businesses with annual power sales of $2.5 billion.

The Federal Government invested $16 billion over the past 50 years to build the dams, powerhouses, transmission lines, and other facilities PMAs use to generate and sell electric power. By law PMAs are supposed to be run on sound business principles, but in practice they are heavily subsidized. They have repaid only $4 billion of the $16 billion Federal investment. The interest rates PMAs pay on the $12 billion they owe the Treasury are well below Treasury's cost of borrowing money.

The President proposes that the Federal Government transfer the assets of two PMAs to local customer groups with selected other assets slated for transfer in later years. Until these transfers are complete, however, the Administration proposes strict reforms in PMA repayment practices. Thus, for example, PMAs would be charged interest rates equal to those non-Federal electric utilities now pay. PMAs would also be required to repay principal on a fixed, straight line amortization schedule.

These reforms would reduce the budget deficit by $0.9 billion in 1990. They would also help assure that Federal power is used efficiently, with attendant benefits for the environment. (They should be enacted regardless of one's view on the separate question of the transfer of PMAs to the private sector.)

Other Programs

The President also proposes changes in three other entitlement programs that will significantly reduce the growth in Government expenditures. These include:

- *Reducing the subsidy paid to banks that make federally guaranteed student loans.* Currently, students owe a low, fixed rate of interest (which the Federal Government pays while they are in school) to lenders. The Government then pays lenders a "special allowance": the difference between the student rate and the sum of the current interest rate on 91–day Treasury bills plus 3.25 percentage points. The purpose of this lender subsidy is to provide a yield, or profit, sufficient to ensure adequate lender participation. There are now over 15,000 lenders in the program, indicating how attractive the profits are. The proposal reduces excess profits and saves Federal costs by reducing the added percentage points in the special allowance to 3.0. Interest rates paid by students are not affected.

- *Continuing the one percent origination fee currently charged to veterans on housing loans guaranteed by the Federal Government, which is due to expire September 30th.* The one percent fee has been in effect for five years and has not adversely affected veterans' ability to purchase homes.
- *Adjusting cash balances in the food stamp clearing account held by the Federal Reserve System banks.* This is a one-time adjustment that results in savings of $0.5 billion in 1990 only. It does not affect benefit levels.

SHIFTING FROM DIRECT TO GUARANTEED LOANS (AND HOUSING VOUCHERS) IN AGRICULTURAL CREDIT PROGRAMS

AGRICULTURE CREDIT POLICY

(In millions of dollars)

	1989	1990	Dollar Change
Rural Electrification Administration:			
Loan limit:			
Direct	1,794	—	–1,794
Guaranteed	—	1,365	+1,365
Outlays	615	412	–203
Farmers Home Administration:			
Agricultural Credit Insurance Fund:			
Loan limit:			
Direct	1,617	700	–917
Guaranteed	2,777	3,000	+223
Outlays	3,435	1,958	–1,477
Rural Development Insurance Fund:			
Loan limit:			
Direct	426	200	–226
Guaranteed	96	196	+100
Outlays	1,180	906	–274
Rural Housing Insurance Fund:			
Loan limit:			
Direct	1,845	100	–1,745
Outlays	3,295	1,613	–1,682
Total:			
Loan limit:			
Direct	5,682	1,000	–4,682
Guaranteed	2,873	4,561	+1,688
Outlays	8,525	4,889	–3,636

The President proposes to incorporate a policy of shifting from direct to guaranteed loans for the Agriculture Credit and Rural Development loan funds in the Farmers Home Administration, and for the Rural Electrification Administration (REA). This shift in loan authority reduces

near-term outlays by decreasing loan disbursements. Over the long-term outlays are reduced because default claims on guaranteed loans will not be as great as the interest expense on direct loans, and because the subsidy value of loan guarantees is less than the subsidy value of direct loans. In addition, the shift to guaranteed loans yields administrative cost savings, since private lenders, not Federal employees, service guaranteed loans.

For Agriculture Credit, guarantees will assist borrowers who are more credit-worthy than current direct loan borrowers. For REA, most current direct loan borrowers can afford private financing terms assisted by guarantees, so the class of recipients should not change as rural utility borrowers become more self-sufficient. For Rural Development, community facility guarantees will assist more credit-worthy municipalities than direct loans have, leaving less credit-worthy borrowers to turn to State government or alternative financing sources.

In the Farmers Home Administration Rural Housing program the reduction of $1.7 billion in direct loans from 1989 reflects a shift to the use of housing vouchers. Funding for 1990 includes 20,000 vouchers, which for five years cover the difference between 30 percent of a recipient's income and the median rent charge in the recipient's area. Vouchers have proven to be a cost-effective form of low-income housing assistance which allow recipients greater mobility and choice of housing. The budget retains $100 million in rural housing direct loans for multi-family housing construction, targeted to areas experiencing a housing supply shortage.

2. APPLYING THE FREEZE

Trimming the growth in entitlements is necessary, but not sufficient to return to fiscal balance. Further restraints on the growth in Government spending are required. These restraints can be viewed as applying the President's freeze concept to three major categories of Government spending: the vast array of (mostly) discretionary domestic programs that have not been covered in the preceding discussion of Presidential initiatives, the various Federal retirement programs, and defense. The first two categories are discussed in this section. The defense budget is dealt with in Section III.A.

APPLYING THE FREEZE

(Outlays in billions of dollars)

	1989	1990	Dollar Change	Percent Change
Freeze Remaining:				
Nondefense spending	136.0	136.0	—	—
Freeze Federal retirement COLAs	51.2	52.7	+1.5	+2.9
Freeze Defense:				
Constant dollar spending	289.8	291.2	+1.4	+0.1
Total	477.0	479.9	+2.9	+0.6

Nondefense (Mostly) Discretionary Spending

Returning to fiscal balance requires freezing aggregate spending of the remaining domestic programs at their 1989 levels. That is, the 1990 level would be, in total, neither higher nor lower than the previous year. This, however, does not mean that each Federal program within this category must be frozen. The freeze is flexible in that it allows for some individual programs in the Freeze Category to be increased while others are reduced. Thus, programs which have legitimate claims and have proven effective should be increased to the extent that additional resources would provide significant public benefits. Programs that have outlived their usefulness, have proven ineffective, or serve only some narrow special interest should be reduced or eliminated entirely.

Final decisions about whether to increase or decrease specific programs within this freeze category are necessarily to be determined through deliberations and negotiations involving the Administration and Congress. Nevertheless, some illustration of the kind of trade-offs among programs envisioned can be provided.

To illustrate the flexibility available within the overall freeze, it is useful to consider a set of programs that might be candidates for funding increases and how they might be "financed" by offsetting decreases.

Human resource programs that benefit the disadvantaged, particularly the young, and programs that improve the quality of our environment are high among the President's priorities. Thus, when considering which human resource areas might be in line for funding increases,

FLEXIBILITY WITHIN THE FREEZE: EXAMPLE 1

(Outlays in millions of dollars)

	1989	1990	Dollar Change
Program Increases:			
Women, Infants and Children	2,001	2,084	+83
Compensatory Education	4,226	4,312	+86
Infant Mortality Prevention	18	28	+10
Job Corps	698	741	+43
Child Welfare Services	236	252	+16
EPA Abatement and Compliance	1,617	1,779	+162
Superfund	1,150	1,375	+225
National Park Service operations	759	765	+6
Total	10,705	11,336	+631
Program Reductions:			
Urban Mass Transit Administration	3,499	3,271	−228
Amtrak	556	62	−494
Total	4,055	3,333	−722
Net Impact:			
Programs that increase	10,705	11,336	+631
Programs that decline	4,055	3,333	−722
Total	14,760	14,669	−91

* Estimates are illustrative only.

programs such as WIC, Compensatory Education, and Child Welfare Services are natural examples. Likewise, Superfund, EPA Abatement and Compliance, and the National Park Service serve as useful examples of environmental programs that might also be increased. If funding for these programs were to be raised, other lower priority programs in the freeze category would require funding reductions by an equal amount.

The table above summarizes how the freeze would work. Increases in the aforementioned human resource and environmental programs total $631 million. Offsetting spending reductions could be achieved by eliminating those mass transit capital grants and operating subsidies financed by general revenues, and by terminating Federal subsidies for Amtrak. These reductions would total $722 million—more than enough to finance the program expansions.

Although there may be differences of opinion about the magnitude of funding increases for specific programs or the particular list of program reductions, the point is still the same. The freeze is an aggregate target, but there is flexibility within it to accommodate higher funding for high-priority programs.

A second illustration of how the freeze works is in the area of education. The President is firmly committed to improving the quality of our educational system. The President's new initiatives to help meet this commitment were outlined earlier in Section II. Within the remainder

of the Education Department's budget, more effective results can be achieved by reordering priorities. Some of the Department's programs, such as Impact Aid (b), have achieved virtual budget immortality, despite widespread recognition that they serve no national purpose. Others, such as Star Schools, a program that provides grants to a few select private telecommunications firms, and the Native Hawaiian Grants, which provide special grants-in-aid only to schools in Hawaii, serve only narrow special interest constituencies. These and other similar programs could be eliminated to make room for expansions in programs that better serve the national interest in educational quality.

The table below shows how elimination of some non-essential Education Department programs can be used to "finance" higher priority program expansions within the flexible freeze.

FLEXIBILITY WITHIN THE FREEZE: EXAMPLE 2

Department of Education

(Outlays in millions of dollars)

	1989	1990	Dollar Change
Possible Terminations	526	394	−132
Proposed Increases:			
Handicapped Education	1,872	1,940	+68
Vocational Rehabilitation	1,618	1,703	+85
Total	3,490	3,643	+153

* Estimates are illustrative only.

A third illustration involves a trade-off between the nondefense functions of Government. Several possible initiatives would reduce Government outlays for energy programs: one is the sale of the naval petroleum reserve (NPR), combined with a requirement that the purchaser agree to provide the strategic petroleum reserve (SPR) with a fixed number of barrels of oil per year. As a result of the tie-in sale, Government expenditures required to fill the SPR would decline. Another is the possible termination of State energy conservation grants. These reductions, in effect, provide room to increase Government spending on veterans medical care and other programs that serve our Nation's veterans.

FLEXIBILITY WITHIN THE FREEZE: EXAMPLE 3

Energy Programs and Veterans Programs

(Outlays in millions of dollars)

	1989	1990	Dollar Change
Energy (Function 250)	4,228	4,068	−160
Veterans (Function 700)	11,890	12,107	+217
Function Total	16,118	16,175	+57

* Estimates are illustrative only.

Freezing Federal Retirement COLAs

FEDERAL RETIREMENT PROGRAMS

(Outlays in millions of dollars)

	1989	1990	Dollar Change	Percent Change
Civil Service Retirement System	27,954	28,774	+820	+2.9
Military Retirement	20,088	20,611	+523	+2.6
Railroad Retirement	2,401	2,539	+138	+5.7
Coast Guard	411	421	+10	+2.4
Foreign Service	327	343	+16	+4.9
Total	51,180	52,688	+1,508	+2.9

ADDENDUM

	1990 Savings
Civil Service Retirement System	−746
Military Retirement	−617
Railroad Retirement	−32
Coast Guard	−7
Foreign Service	−11
Total	−1,413

Federal pension costs have grown rapidly over the past two decades, partly as a result of increases in the number of beneficiaries, but to a significant extent because of the provision of virtually automatic COLAs. Only a small fraction of private firms provide full COLA protection to their retirees.

The President proposes to freeze for one year cost-of-living adjustments (COLAs) by eliminating the January 1990 COLA that would be provided to all Federal annuitants. These include annuitants of the Civil Service, Military, Foreign Service, Coast Guard, and Railroad Retire-

ment systems. In addition, the Administration proposes to limit COLAs for members of the Civil Service Retirement System (CSRS), the Foreign Service Retirement System, and military retirees (including Coast Guard) entering service before 1987 to the CPI minus one percent, beginning in 1991.

In recent years, the Congress has enacted Consumer Price Index minus one percent COLA adjustments for the new Federal Employees Retirement System (FERS), and for military retirees entering service after August 1, 1986. The President's proposal would apply this COLA treatment consistently to all Federal employees.

The need for COLA cost restraint is even more apparent when pay increases of active employees are compared with COLA increases for annuitants: pay increases for active employees between 1977 and 1988 totaled 62.5 percent, while annuity adjustments for retirees during that same period were 83 percent. Thus, the President's proposal would move toward a closer balance between active pay and retirement annuities.

III. MANAGING AMERICA'S GOVERNMENT BETTER

A. PROVIDING FOR NATIONAL SECURITY AND INCREASING DEFENSE EFFICIENCY

OVERVIEW

The restoration of our Nation's military strength in the past decade has been one of the major factors in securing international peace and opening broad prospects for constructive relations with our adversaries. The responsibility to safeguard security and freedom is therefore not only the most important obligation shared by the President and Congress; it is perhaps the most important responsibility of the United States in the world.

Recent history demonstrates dramatically that when America is weakened, the world is a more dangerous place. When America is stronger, the world is safer. Thus, the benefit of restoring and maintaining our strength comes not only in improved readiness, modernization, and morale in our Armed Forces, but in the prospects for peace and freedom.

> *"We have to continue with our policy of peace through strength if we want an enduring improvement in U.S.-Soviet relations.*
>
> *"To the world, we offer new engagement and a renewed vow: we will stay strong to protect the peace."*
>
> George Bush

PRINCIPLES

- Our strategic forces must continue to be modernized, including ground, sea and air-based systems. This is essential for maintaining deterrence and making productive arms control negotiations possible.
- Arms control agreements must be judged not merely by the numbers of specific weapons they may reduce, but by how well they ensure a safer, more stable structure of security and peace lasting into the 21st century.
- The equipment available to our conventional forces, which defend our interests over a broad range of potential conflicts, must continue to be upgraded. We will also maintain the combat readiness of these forces by providing sufficient training and military exercises.
- Technological leadership must be maintained by supporting research necessary to the development of future systems. This includes the active pursuit of the Strategic Defense Initiative.
- We must build on the success of the recent past in recruiting and retaining high-quality military personnel.
- All opportunities must be pursued to make defense programs more efficient, to avoid waste and realize maximum capabilities from our investment in defense.

> *"I firmly believe that the vital first step to broadening our national consensus on defense is to wring the last drop of waste and mismanagement out of the way we buy our weapons. And that's what we intend to do."*
>
> George Bush

POLICIES

In the current context, the President is prepared to agree to a one-year freeze on the real growth of the defense budget, but only on condition that:

- The savings must be allocated to his priority initiatives for reducing the scourge of drugs and increasing our long-term economic growth.
- The defense spending level must be part of a comprehensive budget agreement that meets the Gramm-Rudman-Hollings targets without a tax increase and incorporates reforms in the budget process.

Under a freeze on real growth, there would be an increase of $9.1 billion in budget authority over the 1989 level and an increase of $1.4 billion in outlays. For the out-years, the President proposes real increases of 1 percent, 1 percent and 2 percent.

The President would like to embrace, even for the short term, the defense budget projections which are in the Reagan budget. Unfortunately, the current economic situation requires defense budget savings. The defense projections for the out-years must be based on perceptions of risk and the national security challenges facing America. They must also be reconciled with the demands of our economy and the state of international relationships. The President's basic task is to assure the national security of the United States. Therefore should conditions change, the President will obviously seek whatever adjustments are necessary to protect our security.

PROPOSED CHANGE
(In billions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	290.2	299.3	+9.1	+3.1
Outlays	289.8	291.2	+1.4	+0.5

To produce the needed savings to meet this freeze in the defense budget:

- The President has instructed the National Security Council to review our national security policies and defense strategies with a view to ensuring compatibility among our commitments, strategies, capabilities, and resources. The National Security Council will recommend to the President within 90 days options for United States policy.
- The President charges the Secretary of Defense to improve the defense procurement process. The Secretary will develop a plan to implement the spirit as well as the letter of the Packard Commission report and the Goldwater-Nichols Act. The Secretary is charged to make the hard choices to reduce management overhead by eliminating unnecessary layers of bureaucracy, improving the quality of defense personnel at all layers, and eliminating or deferring lower-priority programs. Finally, the Secretary is charged to develop a plan for more efficient acquisition practices, such as streamlining some 40,000 defense regulations and laws, and using more commercial-style competition, off-the-shelf systems and subsystems, and services available in the private sector.
- It is necessary to recognize that many of these problems—such as the miasma of laws and procedures—stem from Congressional micromanagement. These reforms cannot be accomplished unless Congress does its share by streamlining its procedures of oversight

and budgeting, including more efficient practices such as two-year budgeting and multi-year procurement.

The Secretary of Defense will report to the President in not more than 90 days with recommendations to improve defense management, including steps that must be taken by Congress to improve management practices and procurement procedures. Within 60 days, the Secretary will provide specific program recommendations to meet 1990–91 budget targets without impairing national security.

FUNDING SUMMARY
(In billions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	290.2	299.3	311.0	322.0	335.9
Outlays	289.8	291.2	298.8	306.8	317.4

B. ATTENDING TO PROBLEMS FROM THE PAST

Not all of the investments called for in the Administration's budget reflect decisions made this year. Some are made necessary by decisions made long ago, by past practices that have proven to be unwise, and by a lack of foresight over the course of decades.

Unfortunately, there is no option but to redress these past problems—any further delay will simply make them worse. The important condition attached to the commitments made in the following pages, however, is that efforts to redress past problems must be accompanied by reforms designed to prevent them from recurring.

The President has proposed a package of reforms designed to correct past problems in the savings and loan industry—and his support for the corrective measures proposed in this budget is contingent on the enactment of those reforms.

Similarly, reform is needed in the way the Nation operates its nuclear weapons production facilities—and the Administration is committed to such reform. The budget proposes both an increase in funding needed to clean up the legacy of unwise waste disposal practices in the past—and an increase that will allow the Department of Energy to modernize its production facilities and disposal practices so as to prevent a recurrence of these problems.

Problems in America's aviation system are less the result of past mistakes than of burdens placed on the system by large increases in air traffic in recent years. But the Administration is committed to ensuring that the system is safe and efficient—the public is owed at least that much.

None of these investments is especially attractive in and of itself—but all are required. In each case, inaction is the worst and most costly alternative. Depositors' life savings must be protected. The national security of the American people must be ensured with safe and modern production facilities for nuclear weapons. And the flying public must be assured of safety in the skies.

1. REFORMING THE S&L SECTOR

OVERVIEW

The Administration is committed to a strong and competitive financial system where savings are secure and protected. Financial institutions will be required to conduct their activities in a safe, sound, and honest manner.

Although the vast majority of savings and loan institutions continue to be profitable, prudently managed financial intermediaries, a significant minority of these institutions are insolvent and continue to incur operating losses. In addition, there are some marginally solvent institutions that are losing money and are likely to fail in the next few years. The Federal Savings and Loan Insurance Corporation (FSLIC), the Federal insurer for the industry, does not have sufficient resources currently available to close or merge these insolvent and deteriorating institutions.

The current problems in the savings and loan (S&L) industry must be resolved as expeditiously as possible because they present real risks to our financial system. These ongoing and expensive problems are a growing cancer that must be removed from the system.

Any plan to resolve the problems associated with the Federal Savings and Loan Insurance Corporation must be comprehensive, including both sufficient funding and major structural reform of a system that dates to 1934. The chartering and supervisory processes must be strengthened so that reckless, imprudent, and criminal practices are not tolerated.

A healthy and competitive financial system is critical for continued economic growth. Reform should also protect the role that healthy thrifts play in providing housing credit for the country, consistent with safety and soundness.

> *"The savings and loan deposits are backed by the full faith and credit of the Government, and they are sound, dollar-good."*
>
> George Bush

PRINCIPLES

Several key principles must be followed in confronting the problems of the S&L industry:

- Insured depositors must be protected and the savings of Americans kept secure.
- The stability of the U.S. financial system must be protected by isolating, containing and quickly resolving insolvent S&L problems.
- To ensure that we never again face a similar problem with our deposit insurance funds, there must be a credible reform plan to put the deposit insurance funds on a self-financing basis and to restructure the Federal supervisory system with one independent insurance agency.
- Reform and financing of the problems in the savings and loan system go hand in hand and cannot be separated.

- To eliminate excessive risk taking with Federal guarantees, private capital must be put at risk. Moreover, incentives to attract more private capital from banks and other financial service firms must be included in any reform plan.
- Fraud and wrongdoing at the expense of insured depositors must be considered as serious crimes. Enhanced enforcement powers for the Federal financial regulators, higher civil-money penalties, stiff criminal sanctions and more resources for investigators and research will be included in the comprehensive package.
- There must be full accountability to the President and the Congress for the use of the financial resources of the deposit insurers.

POLICIES

The President has proposed that an additional $50 billion be spent over the next three years on closing, merging or otherwise disposing of insolvent savings and loans. In addition, the President has proposed fundamental reforms to the current regulatory structure, policies and authorities governing the Federal deposit insurance and financial institutions regulatory systems.

To expedite the resolution of the remaining insolvent thrifts, a new Resolution Trust Corporation (RTC) would be created to manage the disposition process over the next five years. The RTC and the present Federal Savings and Loan Insurance Corporation (FSLIC) would be consolidated under the Federal Deposit Insurance Corporation (FDIC), although separate funds would be maintained for all three corporations.

A new Resolution Funding Corporation (REFCO) would raise $50 billion in the private capital markets and provide the funds to the RTC to resolve S&L insolvencies. Principal on the bonds issued by the new corporation would be repaid by industry funds while the interest would be paid through a combination of industry and Treasury financing.

Deposit insurance premiums for commercial banks would increase over the next few years to ensure self-financed insurance funds in the future, but these funds would be kept separate and not commingled with the S&L funds. Insurance premiums for S&Ls would also increase temporarily from 1991 to 1993. In 1994, S&L premiums would be reduced to 18 basis points (from their current 20.8 basis point level) and this new level, 3 basis points above bank premiums, would be maintained thereafter because of the different risk and relative Federal support of S&Ls. In addition, the FHLBs would contribute a portion of their annual retained earnings to the REFCO to help finance the resolution of current thrift insolvencies.

Beyond financing the cleanup of the current situation, long-term reforms will be instituted. The present Federal Home Loan Bank System will be reorganized, to separate clearly the Federal regulatory and insurance functions, making it similar to the Federal Reserve System. To assure greater accountability for sound thrift supervisory practices, the chairman of the Bank System would serve under the direction of the Secretary of the Treasury. Enhanced powers for Federal regulatory and insurance agencies will also be provided to facilitate more effective action and greater protection for both depositors and taxpayers.

To attract more private capital to the thrift industry, current barriers impeding the acquisition of insolvent thrifts by non-thrift institutions will be reduced. More effective incentives for prudent management will also be provided by, (1) implementing risk-based capital requirements, (2) enhancing current regulatory powers to limit growth of financially troubled institutions, (3) increasing penalities for fraud and mismanagement, and (4) empowering regulators to vary insurance premiums for risk if further study demonstrates the feasibility and effectiveness of this approach.

Finally, the Treasury will direct a one-year study to review the deposit insurance system, including (but not limited to): the system's risk and rate structure; incentives for market discipline; methods to reduce the scope of deposit insurance coverage and resulting liability of the FDIC; market value accounting to detect potential losses more quickly; and the pace and methods of case resolution.

FUNDING SUMMARY [1]

(In billions of dollars)

	1989	1990	1991	1992	1993
FSLIC/RTC:					
Disbursements [2]	27.7	31.2	22.5	7.8	8.3
Collections [3]	−17.0	−29.8	−16.5	−3.2	−3.6
FSLIC/RTC Outlays	10.7	1.4	6.0	4.6	4.7
Treasury Payments for Bond Interest	0.5	1.4	1.6	0.9	0.8
Receipts from FDIC Additional Premiums [4]	—	−0.8	−1.6	−1.7	−1.8
Total Budget Outlays	11.1	1.9	6.0	3.8	3.7

[1] This table shows the effect of the proposed policy on budget outlays and the budget deficit.
[2] Includes outlays resulting from past FSLIC case resolutions and new cases.
[3] Includes receipts from deposit insurance premiums, the sale of bonds by the financing entity, and sale of assets from insolvent institutions.
[4] These numbers represent the additional receipts from higher FDIC premiums. These receipts are allocated exclusively to the FDIC insurance fund and are not available to finance S&L case resolutions.

2. PROTECTING SAFETY AND THE ENVIRONMENT AT NUCLEAR WEAPONS PLANTS

OVERVIEW

Americans should not be asked to tolerate damage to the environment or risk to safety in producing the nuclear weapons vital to our national security. At the same time, modernization of the Department of Energy's aging nuclear weapons plants is not at issue—it must be accomplished. The Administration is extremely concerned about the environmental degradation that has occurred at the Government's nuclear weapons plants. The extensive complex of Department of Energy (DOE) nuclear weapons facilities has operated for more than 30 years under environmental and safety standards that are less stringent than required by our current laws. An extensive effort is required to clean up past environmental damage and to come into compliance with environmental standards that apply to industries throughout the United States.

> *"As President, I will insist that in the future Federal agencies meet or exceed environmental standards: The government should live within the laws it imposes on others. The problem we have created is so large and so hugely expensive that we cannot expect to correct it overnight, but attack it we will, as rapidly as we can."*
>
> George Bush

PRINCIPLES

- The Administration will not allow nuclear plants to operate unless their safety can be assured.
- The President is committed to expediting the cleanup of our nuclear weapons facilities to meet or exceed all relevant environmental standards.
- Modernization of the weapons complex and safe operation are essential for maintaining our nuclear deterrent.
- Radioactive wastes from nuclear weapons plants must be disposed of safely to protect future generations.

POLICIES

The President proposes an increase of $1.1 billion in budget authority, 42 percent above 1989, to fund initiatives to protect safety and the environment at DOE's nuclear weapons plants.

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PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
ES&H/Waste Management Base...	1,587	1,949	+362	+23
Environmental Cleanup	159	401	+242	+150
Facilities Modernization	842	1,313	+471	+56
Total Budget Authority	2,588	3,663	+1,075	+42
Budget Outlays	2,536	3,237	+701	+28

Budget authority for environment, safety, and health (ES&H) and defense waste management activities would increase by $362 million or 23 percent. These are the day-to-day activities required to operate DOE's facilities in a safe and environmentally sound manner and to manage the wastes they produce. About $150 million of the increase will be used for safety initiatives necessary for restart of the Savannah River production reactors, such as expansion of control room staffs, seismic modifications, and increased exchanges with safety experts from the commerical reactor community. Budget authority for cleaning up environmental problems resulting from past operation would increase by $242 million or 150 percent. This will allow a speeding up of remedial investigations to determine the extent of the damage done by past pollution and the health risk it poses to present and future generations. It will also allow a quick start on studies to design and implement proper cleanup action. These activities are the first steps needed to address a problem that will take decades to solve. Finally, budget authority for modernization of aging facilities would increase by $471 million or 56 percent. This would support capital spending projects needed to revitalize the production complex, including new production reactor capacity. Expenditures beyond 1990 are also projected to increase. The exact rate of increase that will be necessary cannot be reliably estimated at this stage.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	2,588	3,663	3,791	3,924	4,061
Outlays	2,536	3,237	3,655	3,863	3,998

3. ENSURING EXCELLENCE AND SAFETY IN AVIATION

OVERVIEW

The Administration, in cooperation with the private and other public sectors, is committed to a safe and efficient air transportation system.

The Administration will fulfill its obligation to provide increased numbers of air traffic controllers, aviation inspectors, and security specialists and to expand and modernize the air traffic control system. The Administration will also work with the other two principal participants in our national aviation system—airlines and airport operators—to assist them in fulfilling their roles of providing safe and efficient airline services and, in a cooperative effort involving local and State authorities, expanding airport capacity.

> *"The flying public, and the pilots who serve the public, deserve the most modern and safest system possible. Working with State and local officials, and with industry and representatives of labor, I believe that we at the Federal level can make the world's best aviation system even better."*
>
> George Bush

PRINCIPLES

- America has always been and will continue to be a leader in aviation.
- No degradation in America's excellent aviation safety record will be permitted.
- The Administration supports the timely completion of the program to modernize our Nation's air traffic control system and will ensure that funding to complete this work is made available.
- There is need for an increase in the number of men and women serving as air traffic controllers and aircraft inspectors to accommodate present needs and future growth.
- Federal airport funds should be allocated to meet the most compelling airport capacity needs.

POLICIES

The President proposes an increase for the Federal Aviation Administration (FAA) of $1.15 billion in budget authority, an increase of 17 percent from 1989, to fund the Federal Government's commitment to aviation.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Budget Authority	6,591	7,743	+1,152	+17
Outlays	5,733	6,639	+906	+16

This funding will provide for a 14 percent increase in FAA Operations to permit hiring significantly more controllers, safety inspectors, and security specialists. Given projected increases in aviation activity, these increases are needed for the Federal Government to meet its commitments to the national aviation system and will result in the largest air traffic controller workforce in the history of the FAA.

The requested funding will also provide for a 41 percent increase in our program to modernize and improve the air traffic control system. This will allow the FAA to move rapidly toward completion of this vital program at a time when nearly 100 percent of all modernization activities will be under contract. As a result, the Administration will ensure that the Nation's aviation system has increased airspace capacity, better efficiency, and even greater margins of safety.

Of equal importance, the budget request will improve the air traffic training program by providing for greater use of training simulators and by accommodating the new equipment and procedures to be introduced into the system shortly. The requested funding level will also stress research in human factors, aging aircraft, detection of explosives, capacity improvements, and satellite-based technology.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	6,591	7,743	8,235	8,420	8,100
Outlays	5,733	6,639	7,268	7,559	7,761

C. TRANSFERRING ASSETS TO THE PRIVATE SECTOR

OVERVIEW

The Federal Government has accumulated a wide array of commercial enterprises and activities that provide products and services that are also produced in the private sector. It produces and sells oil, electric power, and helium among many other commodities. In addition, the Government owns rights and resources that can and should be effectively utilized by the private sector.

The Administration is committed to restoring a balance between public and private activities that can best be performed by private enterprise or other non-Federal entities. This will allow the Government to focus its limited budgetary resources, time, and attention on high-priority activities that are clearly the responsibility of the Federal Government.

> *"The American solution for the '90s means renewing our emphasis on a limited Federal Government. It means eliminating governmental functions that overlap with each other or compete with the private sector."*
>
> George Bush

PRINCIPLES

- The President is committed to transferring commercial economic activities from the Government to private enterprises.
- Government operations typically are less productive than private firms, even though—sometimes because—they receive subsidies. These subsidies are unnecessary and undesirable.
- Legitimate Government interests, such as national security and environmental protection, must be preserved when resources are transferred to private operation.

PROPOSED CHANGE

(In millions of dollars)

	1989	1990	Dollar Change	Percent Change
Receipts	n.a.	5,985	+5,985	n.a.

POLICIES

The President proposes to eliminate Federal activities that should be conducted privately, and to allow private firms to use Government-owned resources. As a result of these initiatives, Federal receipts will increase by $6.0 billion in 1990.

The President proposes to transfer the following activities:

- *The Alaska Power Administration.* Negotiations are underway to sell the dams and transmission lines that provide power to Anchorage and Juneau to utilities that serve those cities.

- *Assets of Other Power Marketing Administrations.* The Federal Government sells power generated at 127 dams and transmits it over 30,000 miles of Federal transmission lines. The Administration proposes selling in 1991 certain Federal power assets of the Southeastern Power Marketing Administration, serving customers in Georgia and South Carolina, to interested local groups on terms that will protect the interests of current customers. Selected assets of other power marketing administrations will also be offered for sale in future years.

- *Naval Petroleum Reserves.* The Federal Government will sell the two commercial oil fields it now operates—Teapot Dome and Elk Hills—for $1 billion, plus oil for the strategic petroleum reserve (SPR) and the new Defense Petroleum Inventory. This will accelerate the filling of the SPR at lower cost, increasing energy security and strengthening national security.

- *Helium Processing.* Decades ago, in the absence of a private helium industry, the Federal Government began to process helium for defense and scientific purposes. That industry now exists; it can provide 90 percent of all Government and private demand for helium, and in the near future it will be able to provide 100 percent. In addition, the Government now has helium reserves amounting to over 95 years' supply. The Federal helium processing facilities will be sold.

In some instances, the Federal Government owns rights and resources that will be offered for sale or lease by competitive bidding procedures.

- *Oil and Gas Exploration.* The Administration proposes to open the Arctic National Wildlife Refuge (ANWR) for oil and gas exploration, on an environmentally prudent basis, consistent with a 1987 report to Congress by the Department of the Interior. ANWR contains the most promising site for on-shore oil and gas development in the entire United States. Some 1.5 million acres on the coastal plain, out of the total of 19 million acres within ANWR, will be offered for exploration. Lease sales will be conducted in 1990 and 1993. This program will be designed to protect the environment of ANWR while reversing the decline in the Nation's oil production. The Administration also proposes to sell leases for exploration in the federally administered waters of the Outer Continental Shelf (OCS), under appropriate and prudent environmental safeguards. Both the ANWR and OCS actions will strengthen the Nation's energy security.

- *Chlorofluorocarbons (CFC) Production Rights.* By international agreement, the production of CFCs will be gradually reduced in order to preserve the ozone layer, beginning this year. The Administration proposes to charge the market value for the production rights remaining under the agreement, to ensure that the most efficient use is made of them and to capture the full value of the rights for the public.

- *Spectrum License Assignment.* The Federal Goverment has sovereign authority over the assignment of the rights to use the electromagnetic spectrum. The Administration will grant licenses to use certain frequencies in the unassigned UHF spectrum on the basis of competitive bids instead of by administrative decision or lottery, as has been the case in the past.

FUNDING SUMMARY
(In millions of dollars)

	1989	1990	1991	1992	1993
Receipts	n.a.	5,985	3,504	2,157	3,010

IV. SECURING A MORE PEACEFUL WORLD

OVERVIEW

As the last decade of the 20th century approaches, the world is in transition as rarely before in history. It is poised between the post-World War II era and a new era whose outlines can begin to be discerned—and shaped. It is a world that affects American lives and livelihoods as never before. It is a world of rare opportunities—and some serious challenges.

> *"We know what works: freedom works. We know what's right: freedom is right. We know how to secure a more just and prosperous life for men on earth: through free markets, free speech, free elections and the exercise of free will unhampered by the state."*
>
> George Bush

The free nations—the United States and its democratic allies and friends—can take pride as witnesses of trends in the world that represent the vindication of our values and our way of life:

- There is a close and prosperous partnership among us.
- A tide of freedom is flowing, with democracy flourishing in more and more countries around the globe and the cause of freedom and human rights proving itself the most powerful political force on the planet.
- There is a new appreciation of our philosophy of economic freedom, in developing and developed countries alike, and even in the Communist world. It is more broadly understood that free markets and private initiative are the engine of prosperity, technological advance and social progress.
- America's adversaries face a profound systemic crisis, with their economic and political theories discredited.
- There is an easing of tension between East and West, firmly grounded in concrete progress on a broad agenda of issues, from arms reduction to cooperative exchanges to human rights to resolving regional conflicts.

The free nations are also confronted by many challenges, but these are challenges to wise policy, not to the essence of the free system:

- There is the challenge to maintain unity even as a new era of more constructive relations with our adversaries begins. It is, after all, our strength and solidarity that brought the United States and its allies to this hopeful point.
- There are a host of economic challenges: correcting trade imbalances; maintaining free and fair trade, and preventing trading blocs or barriers; addressing debt problems that threaten emerging democracies and others. The free nations must look to the health and growth of a world economy in which all nations will feel a stake, resolving disputes and maintaining a robust and open world trading system.
- Technological advance brings with it unprecedented blessings. Yet it also brings the danger of proliferation of nuclear, chemical/biological, and ballistic missile weaponry. The world community must work practically and cooperatively to control and counter these dangers. The scourge of terrorism must also be combatted.
- There remain regions of conflict that call for intensified efforts for just and peaceful solutions: the Middle East, Indochina, Southern Africa, Central America, and elsewhere.

The first priority is relations with allies and friends. The neighboring countries in this hemisphere have a special claim on United States friendship and concern in building a vital partnership. The other industrial democracies, particularly in the Atlantic Community but also in East Asia and the Pacific, are allies sharing profound moral as well as strategic interests. And a new partnership with this nation's allies is needed to respond to the new global challenges.

Vice President Quayle's first trip was to Latin America. The Prime Minister of Japan just paid a successful visit to Washington. The President has asked Secretary of State Baker to consult with European allies in the coming week. The President looks forward to an early meeting with NATO leaders.

The changes taking place in the Soviet Union and Eastern Europe are among the historic events of this era. The United States acknowledges that change, and hopes to see further change in that positive direction. This nation is ready to work with the Soviet Union in many areas, building on the significant progress that has been made. The agenda for the future includes regional conflicts, arms reduction, human rights, and bilateral exchanges as well as a host of new transnational challenges: the global environment, terrorism, narcotics, the proliferating technology of modern weaponry.

The United States welcomes the Soviet Union's expressions of its "new thinking," of its new approach to the world, and looks forward to concrete cooperation to give effect to those expressions. The United States is realistic, knowing that a significant clash of interests and philosophy still remains. But U.S. policy will probe in all parts of the expanded agenda with the Soviets and seize the positive opportunities as they become visible.

PRINCIPLES

- In a world of fundamental change, and of many flourishing democracies, one key principle remains valid: the American role of leadership remains as central and vital as ever. This nation is blessed with partners who share its values and efforts, but the United States also bears inescapable responsibilities as the most powerful democracy and the backbone of nuclear deterrence.
- To sustain the U.S. role of leadership in the world there must be a spirit of bipartisanship and cooperation at home. Where the President and Congress have worked together in the past, foreign policies have succeeded brilliantly. Where the two branches have been at odds, they have thwarted each other and the Nation's policies have suffered grievously.
- In an interdependent world, as America's stake in a healthy global economy grows, prosperity and progress depend more and more on the bedrock principle of freedom—a fair and open trading system that nurtures global expansion; freedom for entrepreneurship that is the most powerful engine of economic development and growth. The laws of economics do not discriminate; this is the formula for success for both advanced and developing nations.

POLICIES

The President has instructed the National Security Council to review the range of foreign policy and national security challenges facing the Nation. The National Security Council will recommend to the President within 90 days options for United States policy, designed to help shape events in furtherance of United States goals and ideals.

These policy reviews are underway.

The President and Secretary of State are pledged to consult and collaborate with Congress, as appropriate, as they design and implement policies for a new era.

FUNDING SUMMARY

(In millions of dollars)

	1989	1990	1991	1992	1993
Budget Authority	17,598	19,314	19,130	19,278	19,454
Outlays	16,660	17,677	17,777	18,491	18,410

V. APPENDICES

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A. NOTE ON ECONOMIC AND TECHNICAL ASSUMPTIONS

In order to prepare the budget, it is necessary to make assumptions about the future course of the economy over several years. The economic assumptions are an integral part of the budget. They are not, however, an economic forecast. They are projections of the performance of the economy, based on the assumption that the President's budget would be promptly enacted by the Congress. If the President's budget is not accepted, and if a credible deficit-reduction program is not enacted, the economic projections should *not* be treated as a forecast of likely economic performance.

The budget also requires assumptions about technical factors affecting entitlement and other mandatory programs, such as estimates of the number of beneficiaries in retirement and health programs, crop forecasts, or bank failures. Other technical factors affect revenue estimates, as for example tax collection patterns and effective tax rates paid by households and corporations.

Inevitably the economic and techical assumptions prove to be incorrect to some extent. They are revised regularly as part of the Mid-Session Review of the budget and again in January in the budget for the following year.

ECONOMIC ASSUMPTIONS

The economic assumptions underlying President Reagan's 1990 budget were prepared during November 1988. They were based on data through the end of fiscal year 1988, although some of the data were preliminary at that time. (All data in this appendix are presented on a fiscal year basis.) Since then, additional information has become available, and the preliminary data have been revised.

The key economic variables affecting the Federal budget are gross national product (GNP), inflation, interest rates, and unemployment. During the first four months of 1989, the economic assumptions have proven accurate with respect to inflation (as measured by the Consumer Price Index) and unemployment, but less so with respect to GNP and interest rates. Actual interest rates in the first quarter of the fiscal year were slightly higher than projected in November; so far in the second quarter, there has been a larger difference between the actual rates and the projection. The rate of growth of nominal GNP in the first quarter was substantially higher than projected, according to the advance estimate.

PROJECTED AND ACTUAL ECONOMIC CONDITIONS, 1989

(In percent)

	First Quarter		Second Quarter*	
	Forecast	Actual	Forecast	Actual
Nominal GNP Growth	5.1	6.8	n.a.	n.a.
Inflation (CPI-W)	4.4	4.4	n.a.	n.a.
Short-Term Interest Rates (91-day T-bill)	7.4	7.7	6.7	8.3
Long-Term Interest Rates (10-year note)	9.0	9.0	8.7	9.2
Unemployment Rate	5.3	5.3	5.3	5.4

* Through January, where available.

These differences have opposite effects on the Federal budget deficit. Higher interest rates raise outlays, increasing the deficit; higher GNP growth raises revenues and slightly reduces outlays, lowering the deficit.

Economic conditions often fluctuate widely from month to month, and analysts are seldom able to forecast these short-term changes with great accuracy. This is true even when long-term trends are clear and continuing. Rather than revise the economic assumptions in full at this time, the Administration has chosen to modify them to reflect the actual economic outcomes so far in 1989. Projections for the future have not been changed, except insofar as is necessary to take account of current economic conditions. The Administration has therefore made two changes in economic assumptions in the process of revising the budget.

- Actual interest rates for the first four months of 1989 have been substituted for those projected in November, and interest rates are assumed to come down gradually to the projected levels by the second quarter of 1990, one year from now. Thus, short-term rates are assumed to be higher on average in 1989 by one full percentage point, and long-term rates by 0.3 percentage point, than the November projections assumed.
- The projected level of nominal GNP for the first quarter of 1989 has been modified to take account of the advance estimate reported in January. The adjustment consists of raising nominal GNP for the quarter by one-half the difference between the projection and the advance estimate. This adjustment is intended to err on the side of caution, because the difference between the projected and the actual level is large, and because subsequent revisions of the advance estimate are frequently large also.

Otherwise, the projections have not been changed. They will be reviewed and modified, as appropriate—after systematic analysis by the Troika—in the preparation of the Mid-Session Review. In accordance with law, the product of that review is to be made public on July 15, 1989.

The consequences of the changes in economic assumptions for the budget deficit are to increase the deficit slightly for both 1989 and 1990, and lower it slightly in subsequent years.

CHANGE IN DEFICIT FROM MODIFIED ECONOMIC ASSUMPTIONS

(In billions of dollars)

	1989	1990	1991	1992	1993
Higher Interest Rates	+3.1	+2.8	+1.4	+0.9	+0.8
Nominal GNP Increase in 4th Quarter of 1988	−2.7	−2.0	−1.8	−1.9	−2.1
Net Change	+0.4	+0.8	−0.4	−1.0	−1.3

Note: Plus sign indicates larger deficit.

Economic projections are prepared for the full six-year budget period covered by each budget. These long-term projections also assume the enactment of the President's budget proposals and other economic policies. On these assumptions, they are intended as projections of the average level of economic activity. They are not intended to capture year-to-year fluctuations. The projections for the years from 1990 to 1994 assume real economic growth of about 3.25 percent on average over the period. This is consistent with the long-term growth trend in the American economy over the postwar years; since 1948—a period including eight recessions—real economic growth has also averaged 3.25 percent. Within the four decades, there

have been a number of five-year intervals with significantly higher growth, and a number with significantly less.

TECHNICAL ASSUMPTIONS

The only technical assumption that has been changed concerns outlays by the Federal Savings and Loan Insurance Corporation (FSLIC). Based on activity during the first quarter of 1989, outlays for this year are expected to be higher by $1.9 billion. These figures reflect the large volume of case resolutions conducted by the FSLIC, particularly during the month of December.

SENSITIVITY OF THE ECONOMIC ASSUMPTIONS

Both receipts and outlays are significantly affected by changes in economic conditions, and errors in economic projections lead to errors in the budget projection. The budgetary effects of changes in economic assumptions are fairly predictable. Two examples of the sensitivity of the budget to economic assumptions illustrate the magnitude of the effects.

The economic projections of recent years have been criticized for assuming that inflation will decline gradually but steadily until an essentially stable price level is reached, and that nominal interest rates will decline correspondingly. These criticisms may or may not prove to be correct, but they are beside the point with respect to deficit projections. Equal percentage point increases in inflation and nominal interest rates would produce little effect on the deficit; higher nominal incomes result in an increase in revenues that offsets the higher outlays.[1] Thus, if the Administration were to assume higher interest rates and inflation rates, only minor modifications to the budget would be required in order to project a deficit of $100 billion in 1990 and a balanced budget by 1993. Such an interest rate and inflation projection would, however, be unrealistic, since the Federal Reserve Board has clearly stated its goal of continuing to reduce the inflation rate, and since there is every reason to expect interest rates to decline as the deficit is reduced. Analysts disagree about the extent of the decline in interest rates that would occur if the President's program were to be promptly enacted by Congress, but there is virtually no disagreement with the projection that they would fall.

DEFICIT EFFECT OF HIGHER INTEREST RATES AND INFLATION

(In billions of dollars)

	1989	1990	1991	1992	1993
Effect of one percentage point increase in both.....	−1.0	+1.9	+2.8	+3.7	+3.4

Note: Starting January, 1989. Plus sign indicates larger deficit.

The second example shows the effect of raising nominal GNP by the full amount of the difference between the projected and the actual growth rates in the advance report for the first quarter of 1989. This analysis leaves the growth rate for subsequent quarters unchanged, as is done in the modified assumptions used in preparing this budget revision, and includes the modification in the interest rate assumption described above. The deficit is lower by about $2.0 billion each year, compared to the modified assumptions, and is lower each year than the deficit projected in President Reagan's 1990 budget.

1 Prior to the tax law changes of this decade, particularly indexing of the individual income tax, an increase in inflation and interest rates actually reduced the deficit, as revenues rose even faster than outlays.

CHANGE IN DEFICIT WITH FULL GNP ADJUSTMENT

(In billions of dollars)

	1989	1990	1991	1992	1993
Higher Interest Rates	+3.1	+2.8	+1.4	+0.9	−0.8
Nominal GNP Increase	−4.1	−3.7	−4.1	−4.5	−4.8
Net Change	−1.0	−0.9	−2.7	−3.6	−4.0

Note: Plus sign indicates larger deficit.

B. REAGAN REVENUE MEASURES

REAGAN REVENUE PROPOSALS

(In billions of dollars)

	1990	1991	1992	1993
Receipts:				
HI coverage of State and local employees [1]	1.8	1.9	1.9	1.9
R&E allocation rules	−1.7	−0.7	−0.8	−0.9
R&E tax credit	−0.4	−0.7	−1.0	−1.2
IRS enforcement initiative	0.3	0.6	0.7	0.7
NRC and FEMA fees	0.3	0.4	0.4	0.4
Aviation-related taxes [1]	0.9	1.6	1.7	1.8
Other	−0.1	0.1	0.1	−0.1
Subtotal, receipts	1.2	3.2	3.0	2.6
Offsetting collections:				
Credit user fees [2]	0.2	0.4	0.8	1.1
Service user fees	0.4	0.4	0.5	0.5
Outer Continental Shelf receipts [3]	*	—	−0.1	—
Arctic National Wildlife Refuge	2.1	*	*	1.3
Chlorofluorocarbon production rights	0.4	1.4	0.6	0.6
Unassigned spectrum, FCC	2.3	1.1	—	—
Customs Service (policy change)	−0.2	−0.2	−0.3	−0.3
Subtotal, offsetting collections	5.2	3.1	1.4	3.2
Total, all revenues	6.4	6.3	4.4	5.8

* $50 million or less.

[1] Net of income tax offsets.

[2] President Bush's proposals exclude an increase in the Veterans loan guarantee fee proposed in the January budget.

[3] President Bush's proposals exclude lease sales off the coast of California (sales 91 and 95) and the coast of southern Florida (sale 116, south of 26 degrees north latitude) proposed in the January budget.

C. BUSH RECEIPT PROPOSALS

PRESIDENT BUSH 1990 BUDGET RECEIPTS PROPOSALS

(In billions of dollars)

	1989	1990	1991	1992	1993
Proposals:					
Establish child care credit [1]	—	–0.2	–1.9	–2.2	–2.5
Restore and double adoption deduction	—	–*	–*	–*	–*
Provide credit for intangible drilling	—	–0.2	–0.3	–0.3	–0.4
Revise AMT for exploratory drilling by independents	—	–0.1	–0.1	–0.1	–0.1
Provide credit for tertiary enhanced recovery	—	–*	–*	–*	–*
Establish enterprise zones	—	–0.2	–0.2	–0.3	–0.4
Enhance long-term investment incentives	0.7	4.8	4.9	3.5	2.2
Extend existing telephone excise tax [2]	—	—	1.6	2.6	2.8
Total, Bush proposals	0.7	4.2	4.0	3.2	1.6

* $50 million or less.

[1] Includes the effect on outlays. Eligibility commences in 1990, but most refur ls are not paid until 1991.

[2] Net of income tax offsets. Assumes extending the current tax of 3 percent.

D. SUMMARY OF BUSH BUDGET INITIATIVES

AREAS OF PRIORITY INITIATIVE SPENDING

(In millions of dollars)

	1989		1990		Total Increase	
	BA	Outlays	BA	Outlays	BA	Outlays
INVESTING IN R&D AND LONG-TERM PRODUCTIVE CAPACITY						
Basic research	2,707	2,613	3,068	2,905	361	292
National Aeronautics and Space Administration	10,898	10,596	13,274	12,597	2,376	2,001
Superconducting Super Collider	100	100	250	206	150	106
National Institutes of Health	6,543	6,250	6,777	6,600	234	350
Census	655	672	1,497	1,587	842	915
INVESTING IN PEOPLE						
Department of Education	17,280	16,336	17,874	17,104	594	768
ENDING THE SCOURGE OF DRUGS						
Drug abuse	5,331	4,569	5,966	5,543	635	974
Prisons and other Justice Department programs	4,025	3,979	4,460	4,297	435	318
MEETING SPECIAL OBLIGATIONS: A KINDER, GENTLER AMERICA [1]						
Land and water conservation	206	240	206	244	0	4
Acid rain	190	92	710	120	520	28
Homeless:						
Fully fund the McKinney Act	466	408	746	496	280	88
Non-McKinney homeless initiative	—	—	50	25	50	25
Other assistance for homeless	125	92	211	124	86	32
Head Start	1,235	1,202	1,485	1,351	250	149
YES—Youth Engaged in Service	—	—	25	21	25	21
HIV/AIDS	1,287	1,217	1,600	1,377	313	160
Medicaid	34,301	34,301	37,616	37,616	3,315	3,315
ATTENDING TO PROBLEMS OF THE PAST [2]						
Atomic energy clean up and modernization	2,588	2,536	3,663	3,237	1,075	701
Federal Aviation Administration	6,591	5,733	7,743	6,639	1,152	906
SECURING A MORE PEACEFUL WORLD						
International affairs	17,598	16,660	19,314	17,677	1,716	1,017
Total (excluding double counts)	111,631	107,239	125,974	119,234	14,343	11,995

[1] Social security and means-tested entitlement programs are fully funded, but they are not reflected in this table.

[2] The comprehensive reform package (involving public and private resources) for FSLIC is described in Section III.B.1 above.

E. OUTLAYS BY BUDGET FUNCTION

OUTLAYS BY BUDGET FUNCTION [1]

(In billions of dollars)

		1989	1990	1991	1992	1993
050	National defense:					
	DOD—Military	289.8	291.2	298.8	306.8	317.4
	Atomic energy cleanup	2.5	3.2	3.7	3.9	4.0
	Other	5.9	5.9	6.1	6.3	6.4
150	International affairs	10.7	17.2	17.3	18.0	18.1
250	General science, space, and technology	12.6	14.9	16.7	18.0	19.1
270	Energy	4.1	3.1	3.1	3.2	2.9
300	Natural resources and environment:					
	Pollution control and abatement	5.1	5.1	5.3	5.4	5.6
	Arctic National Wildlife Refuge	—	−2.1	−*	−*	−1.3
	Other	11.4	11.4	11.7	12.0	12.3
350	Agriculture:					
	Commodity Credit Corporation	13.9	10.7	11.0	9.5	7.7
	Agricultural credit and insurance	4.5	2.4	2.1	2.0	1.4
	Other	2.5	2.4	2.4	2.5	2.5
370	Commerce and housing credit:					
	Deposit insurance	14.7	0.4	3.8	1.0	0.8
	Other	7.7	5.8	4.7	4.0	3.6
400	Transportation	28.0	29.1	30.4	31.4	32.1
450	Community and regional development	6.3	6.6	6.7	6.7	6.8
500	Education, training, employment, and social services	36.2	36.5	39.0	40.3	41.4
550	Health	49.8	53.7	59.0	64.3	69.8
570	Medicare	86.8	94.8	106.6	120.5	131.7
600	Income security	137.0	138.3	145.2	150.3	156.2
650	Social security	232.3	246.6	262.3	277.0	290.8
700	Veterans benefits and services	29.2	29.5	30.2	30.9	31.4
750	Administration of justice	9.4	10.3	10.6	10.8	10.8
800	General government	10.1	10.0	10.3	10.4	10.6
900	Net interest	168.8	173.3	167.0	155.0	144.4
920	Allowances	—	−0.3	−0.4	−0.4	−0.5
950	Undistributed offsetting receipts	−36.3	−39.6	−40.9	−40.5	−41.9
Total		1,142.6	1,160.4	1,211.8	1,249.2	1,284.1

* $50 million or less.

[1] Function totals exclude credit reform and proposed loan asset sales. The Administration endorses credit reform and most of the loan asset sales in the January budget.

F. MANDATORY PROGRAMS THAT NATURALLY DECLINE UNDER CURRENT LAW

MANDATORY PROGRAMS THAT NATURALLY DECLINE UNDER CURRENT LAW

(In millions of dollars)

	Current services		
	1989	1990	Decrease
International affairs:			
Development and humanitarian aid, offsetting receipts	−480	−505	−25
Conduct of foreign affairs	15	9	−6
International financial, excluding Export-Import Bank	−68	−81	−13
Energy:			
Tennessee Valley Authority	540	300	−240
Nuclear waste disposal fund	−526	−538	−12
Nonconventional fuel	159	4	−155
Agriculture:			
Commodity Credit Corporation	13,036	12,645	−391
Crop insurance fund	1,049	356	−693
Commerce and housing credit:			
Ginnie Mae mortgage-backed securities	−210	−313	−103
Federal Housing Administration, excluding asset sales	1,537	586	−951
Federal Deposit Insurance Corporation	3,807	−1,324	−5,131
National Credit Union Administration	−169	−195	−26
Science and technology	189	152	−37
Transportation:			
Panama Canal fund	34	−4	−38
Education, training, employment, and social services:			
Guaranteed student loans	3,602	3,282	−320
Income security:			
Means-tested:			
Aid to Puerto Rico	908	825	−83
Supplemental Security Income	11,389	11,038	−351
Family support	9,847	9,581	−266
Earned Income Tax Credit	3,849	3,841	−8
Other:			
Disabled coal miners	1,529	1,505	−24
Pension Benefit Guaranty Corporation	−301	−415	−114
Federal employee life insurance	−782	−842	−60
Low-rent public housing loans	788	503	−285

MANDATORY PROGRAMS THAT NATURALLY DECLINE UNDER CURRENT LAW—Continued

(In millions of dollars)

	Current services		
	1989	1990	Decrease
Veterans benefits and services:			
GI Bill and readjustment benefits	620	451	−169
Third party reimbursement	−138	−304	−166
Loan guaranty fund, excluding fees and asset sales	1,758	1,582	−176
Administration of justice:			
Customs fee	−637	−771	−134
General government:			
OPM revolving fund	−11	−25	−14
Mineral and land payments	547	511	−36
Total	51,881	41,854	−10,027

G. SUMMARY PROJECTIONS OF RECEIPTS, OUTLAYS, AND THE DEFICIT

RECEIPTS, OUTLAYS, AND DEFICITS

(In billions of dollars)

	1989	1990	1991	1992	1993
Receipts	979.3	1,065.6	1,147.6	1,218.6	1,286.6
Outlays, excluding asset sales	1,149.5	1,160.4	1,211.8	1,249.2	1,284.1
Deficit, excluding asset sales	170.2	94.8	64.2	30.6	–2.5
G-R-H targets	136.0	100.0	64.0	28.0	0.0
Deficit, including asset sales	163.3	91.1	61.9	26.8	–3.8